1973 Annual Report

Penney

JCPenney is a major retailer of apparel, home, and automotive products, drug store merchandise, [illegible] and insurance, serving consumers principally through stores and catalog operations in the United States and through stores in Belgium and Italy.

Our annual report this year, in addition to informing you of our 1973 results, seeks to acquaint you with the far-reaching design program we began in 1970. The most obvious element in this system is the new JCPenney signature or logotype.

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Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 a.m. Tuesday, May 21, 1974, at the Essex House, 160 Central Park South, New York City. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 15, 1974.

Supplemental Information

Copies of the Company's Form 10-K annual report for 1973 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1973 year end to the United States Equal Employment Opportunity Commission will be made available upon request to:

J. C. Penney Company, Inc.
Public Information
1301 Avenue of the Americas
New York, New York 10019
Phone: (212) 957-6610

Inquiries about your stockholder account should be forwarded to:
J. C. Penney Company, Inc.
Securityholder Services
P.O. Box 3940
Wilmington, Delaware 19807

Financial Highlights (In millions)

	1973	1972
Sales	$6,243.7	$5,529.6
Per cent increase from prior year	12.9	14.9
Net income	$ 185.8	$ 166.1
Per cent increase from prior year	11.8	20.5
Per cent of sales	3.0	3.0
Per cent of stockholders' equity	16.1	16.6
Net income per share—primary	$ 3 19	$ 2 88
Dividends per share	$ 1 11	$ 1.05
Capital expenditures	$ 209.6	$ 185.5

To Our Stockholders

JCPenney's sales in 1973 rose 12.9 per cent to a new high of $6.2 billion from $5.5 billion in 1972. This marked a milestone in the Company's history—the first time we achieved $6 billion in sales.

Net income in 1973 increased 11.8 per cent to $185 8 million from $166.1 million in 1972. On a per share basis, it rose to $3.19 from $2.88. The net income in both years gives effect, on a pooling of interests basis, to the merger with The Educator & Executive Company of Columbus, Ohio, in July 1973.

The regular quarterly dividend was raised one cent a share to 28 cents effective with the August 1973 payment. The increase marked the second one cent per share rise in the quarterly dividend payment during the year.

The most significant component of our sales increase was provided by our full line stores, which achieved a gain of 21 2 per cent. These stores showed a sizable profit improvement, a trend we expect to maintain as they continue to mature. It is noteworthy that over half of our full line store space has been in operation less than five years.

The Company's smaller, soft line stores contributed almost 40 per cent of all Penney store sales in the United States. These stores, which sell principally apparel and household textile merchandise, are still attaining higher profit margins, on the average, than our full line stores.

Catalog had another strong year. Sales rose 23.4 per cent to $478.8 million. Profit also increased substantially, reflecting the continued growth of this operation in terms of geographical expansion, refinement of organization and systems, and number of regular customers.

We opened our first catalog sales centers in other than JCPenney stores in 1973—in seven The Treasury stores and nine drug stores. At year end, there were 1,243 catalog sales centers in operation, an increase of 112 over 1972. A third catalog distribution center, in Columbus, Ohio, is scheduled for completion later this year, and we have taken an option on land for a fourth near Kansas City, Kansas.

After reporting a small loss in 1972, The Treasury stores recorded a profit in 1973 with the development of a larger base of mature stores The Company's other three domestic activities—consumer financial services, drug stores, and supermarkets—experienced little change in profitability from the prior year.

European operations continued at a loss although there was considerable improvement over 1972, reflecting steps taken to strengthen those operations We are pleased with the sales performance of our recently opened stores in Italy and Belgium

High short term interest rates and an increase in net bad debt losses affected 1973 results adversely Interest expense was approximately $30 million higher than in 1972

During 1973, we continued to consolidate and refine the major components of the expansion program we embarked on in the sixties In addition, we placed renewed emphasis on strategic planning for long term growth Underlining the importance of this function was the appointment of Donald V Seibert, Vice President and Company director, as Director of Corporate Planning and Development. In his new position, Mr Seibert has responsibility for coordinating the development of corporate business strategy and objectives and providing leadership in formulating programs to pursue those objectives

William M. Batten

Increased emphasis upon strategic planning has multiplied the need for accurate, quickly available information Fortunately, our ability to gather and process information is increasing at an accelerating pace.

During the year, the Company placed two large orders for electronic point-of-sale terminals, which are taking the place of cash registers in our stores. Included in the equipment are Optical Character Recognition wands, which are used to "read" merchandise tickets and credit cards.

The new computerization will enable our stores to obtain immediately the sales rate of fast-moving and slow-moving items, inventory levels, and other merchandising information Critical local decisions on reorders and markdowns will be better timed for optimum results Customer service will be further improved by speedier credit authorization.

As technology looms large in our long term planning, so also does our concern for people and the quality of life. Dealing with societal and environmental matters has become more and more an integral part of the ongoing business process.

Along with other statistical indices of the Company's operations, on page 23 of this report we include for the first time data showing the present status of our Affirmative Action Program. This effort, a top corporate priority, is directed toward appropriate representation of minorities and women across all levels of employment.

Our business with minority-owned suppliers last year increased to over $8.0 million from $5.2 million in 1972. At the same time, we had working relationships with 10 minority-owned

banks At year end, accounts with those banks had balances totaling $275,000; lines of credit exceeded $1 million.

The solid waste management tests initiated in Atlanta and Houston last year demonstrated the value of recycling. As a result, a resource recovery program has been introduced in each of our five regions. We expect the effect on costs as well as the environment to be favorable

With the increased emphasis on environmental planning throughout the country, our expansion forecasts must now take into account the longer lead time required by shopping center developers to complete environmental and ecological studies and to obtain necessary approvals Shortages of building materials have already adversely affected construction timetables for some projects.

Capital expenditures for 1974 are estimated to reach $250 million We plan to open 22 JCPenney stores, six The Treasury stores, 23 drug stores, and one European store—in Belgium. This is expected to increase store space approximately 4 5 million gross square feet, or 0.7 million gross square feet more than we added in 1973.

Our expansion program for the balance of the seventies should be closer to the average annual level of 6 million gross square feet achieved in the 1968-1972 period. Our plans assume that we will not be seriously impeded by environmental and energy restraints or by a slowdown in real estate developments.

Jack B. Jackson

We have plenty of room to grow without competing with ourselves. In the eight largest metropolitan markets we have only 20 full line stores. In the 50 largest markets, we have only 110 full line stores

Much of our expansion over the next few years is planned for full line JCPenney stores in regional shopping centers in major metropolitan markets, particularly those in which we have insufficient representation. At the same time, we will continue to implement our small and medium market store programs Downtown stores, such as the full line store we opened in Spokane in 1973, are of increasing interest to us and we will be alert to opportunities in inner city developments.

The key word in every outlook seems to be "uncertainty." Months before the magnitude of the energy problem became apparent, consumer confidence had begun to decline As we drew closer to 1974, the outlook became more clouded as we attempted to assess the impact on the economy of rising inflation, growing unemployment, and raw material shortages

Despite the uncertainties, we believe 1974 will produce a good rate of sales gain even if it is not up to the 1973 level Although there may be little or no real gain in the gross national product this year, the outlook is more favorable for sales of nondurable goods, which account for the bulk of our business In addition, we have confidence in the ability of our key operating divisions to build on the base of their good performance in recent years.

Our sales should be aided by the increase in social security payments, the lifting of wage controls, and the fact that more people will be working at higher rates of pay than ever before in our history.

Another positive factor is the removal of Phase IV controls from the general retail merchandise industry. This will help eliminate distortions in merchandise availability and result in a better relationship between supply and demand of merchandise at all price levels. Retailing is a highly competitive business, and economists recognize that competition is the best of all possible controls from both the retailer's and consumer's viewpoint.

Finally, any progress made in solving the energy problem should have a beneficial effect upon the general economy and customer shopping patterns.

We are prepared to make the most of almost any economic climate. Ten years ago, we were essentially a one-dimension company. Today we have many dimensions—large stores, small stores, catalog, international retailing, and consumer financial services. All the pieces are in place to make us stronger and more flexible, and many more options are available to us.

We take great pleasure in welcoming Vernon E Jordan, Jr., to our Company. Mr. Jordan, who is Executive Director of the National Urban League, was elected to our Board of Directors in December We are confident of the contributions he will make to our future

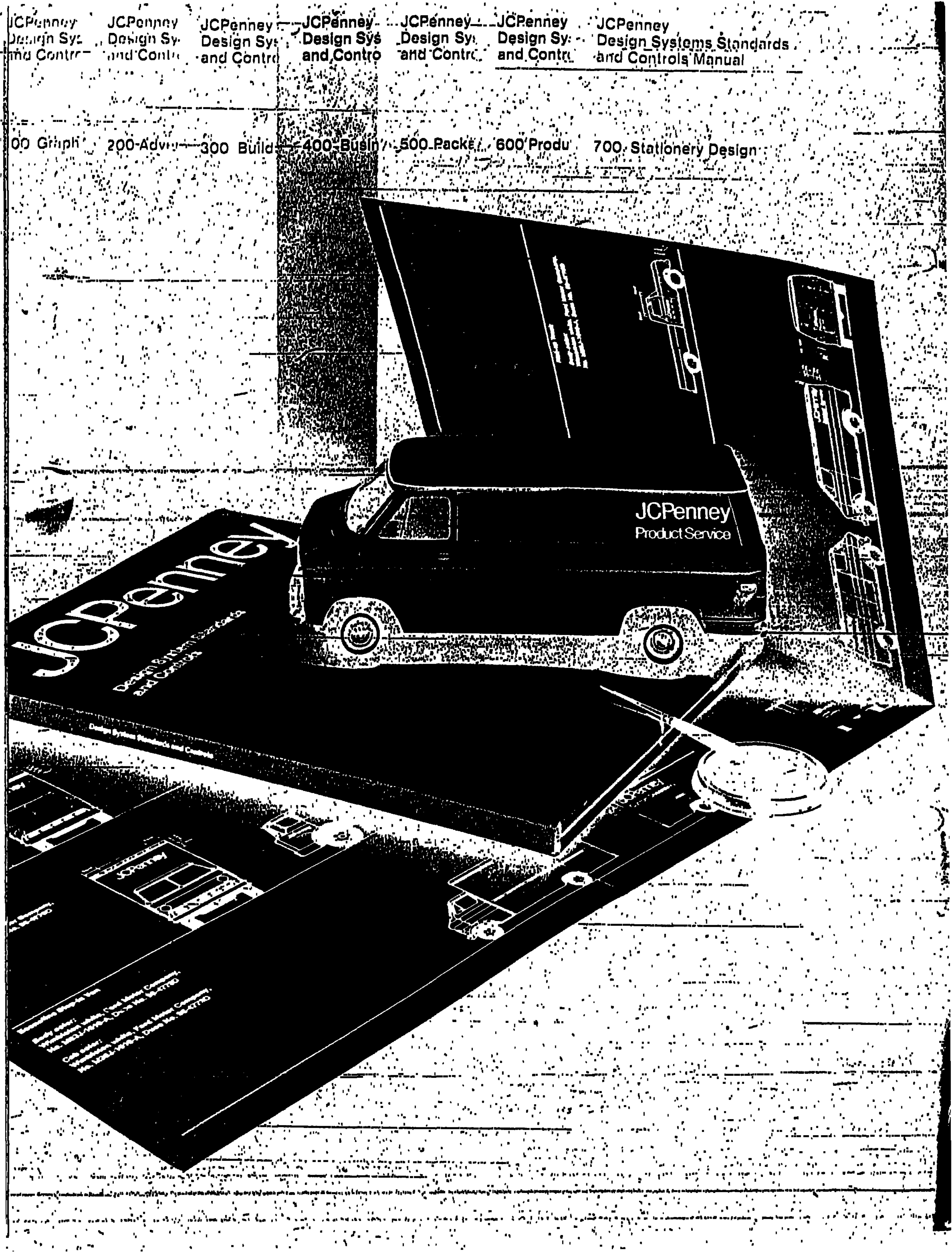
Whether in terms of a newly elected director or a newly hired trainee, we recognize that the most important factor in planning for the future is our people The high quality of JCPenney people at every organizational level is frequently remarked upon by outside observers. We thank our Penney people and our suppliers for their significant contributions to our 1973 performance.

William M. Batten

Chairman of the Board

Jack B Jackson

President


JCPenney
Design Systems Standards
and Controls Manual
700 Stationery Design
JCPenney
Product Service
JCPenney

The JCPenney Design System

As we reach out for new, younger, and increasingly sophisticated customers, the communication of what we represent is a critical factor in our planning. Being distinctive in today's crowded marketplace is one challenge; communicating this distinctiveness is another.

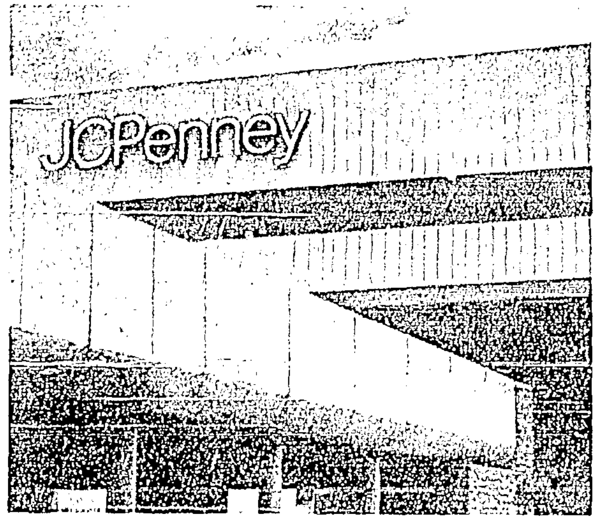
We want to be recognized for youthfulness and fashion, for good taste and our awareness of what's happening around us. We want to be regarded as people who look to the future, a Company in perpetual transition.

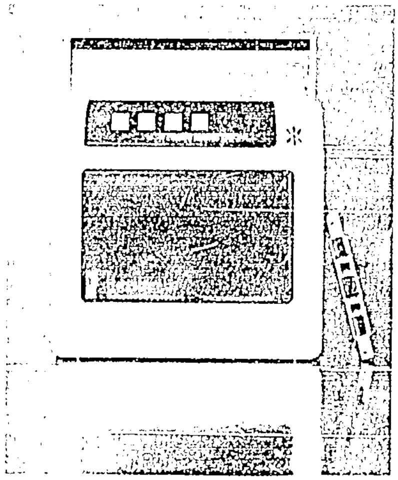
At the same time, we want our appeal to shoppers to embrace the old-fashioned qualities, like honesty, integrity, service, straightforwardness, and value.

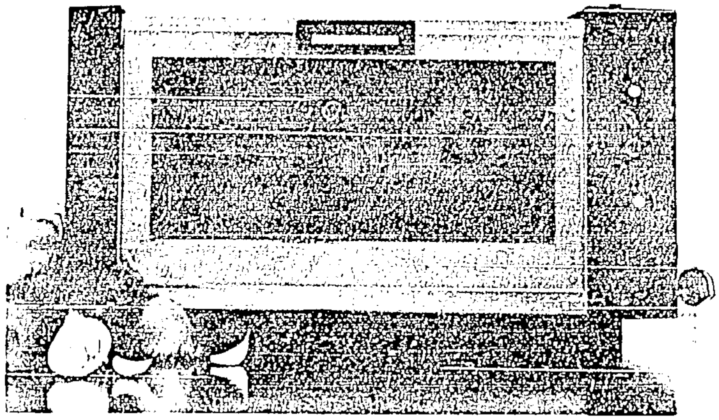
What people think of us is strongly influenced by the way they see us. Each fleeting visual impression is a direct and immediate communication to them from us. That is why our design system embraces so many aspects of our business: from the architecture and signing of our JCPenney stores to the maintenance and identification of our service vans, from the cover and layout of our 1,128 page catalog to the label on a boy's shirt.

Designers are at work in many different areas of our Company To help them produce a consistent JCPenney look and style, manuals have been developed on such subjects as graphic standards, business forms, packaging design, and advertising guidelines

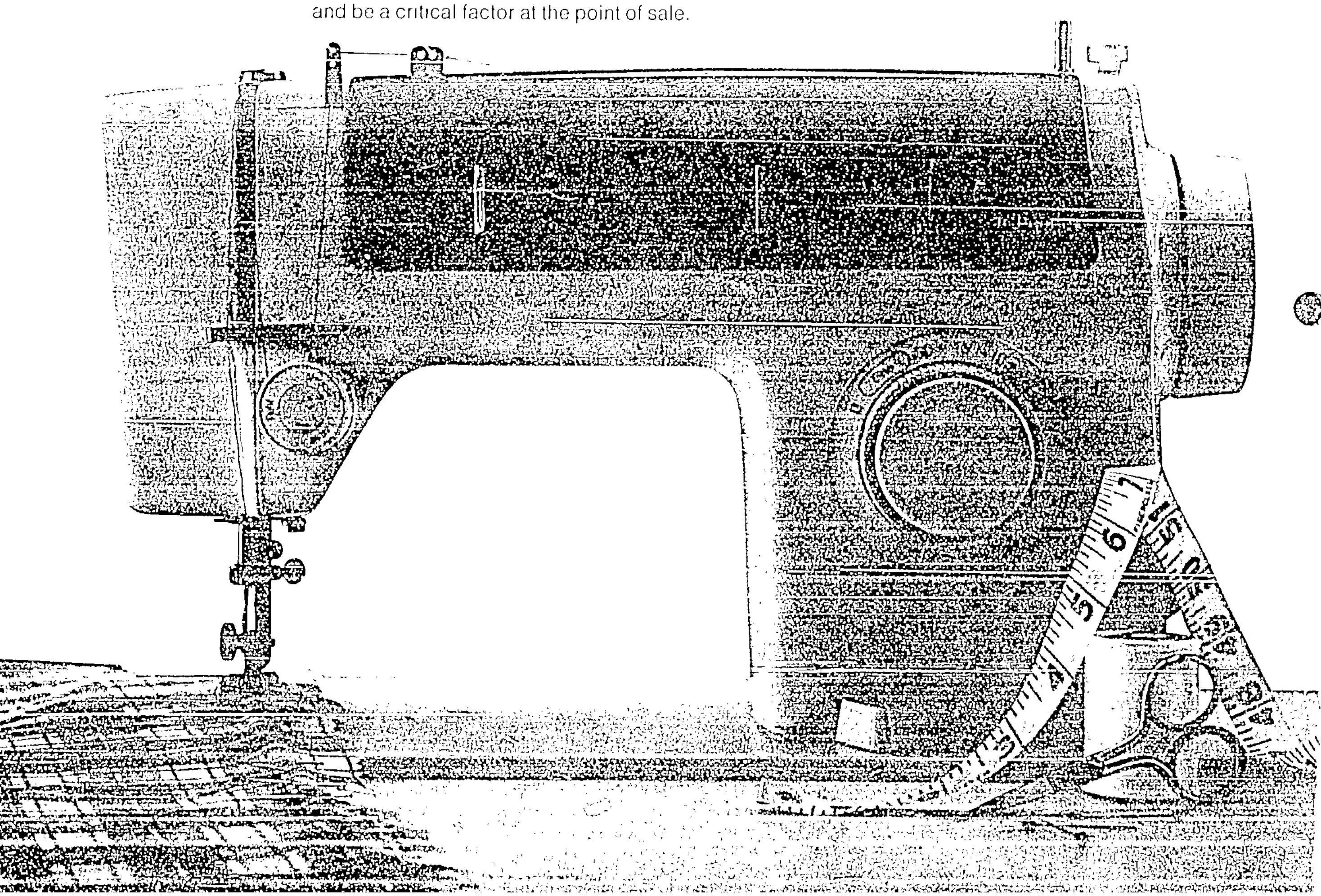
How should a letter be set up? That's covered, too.

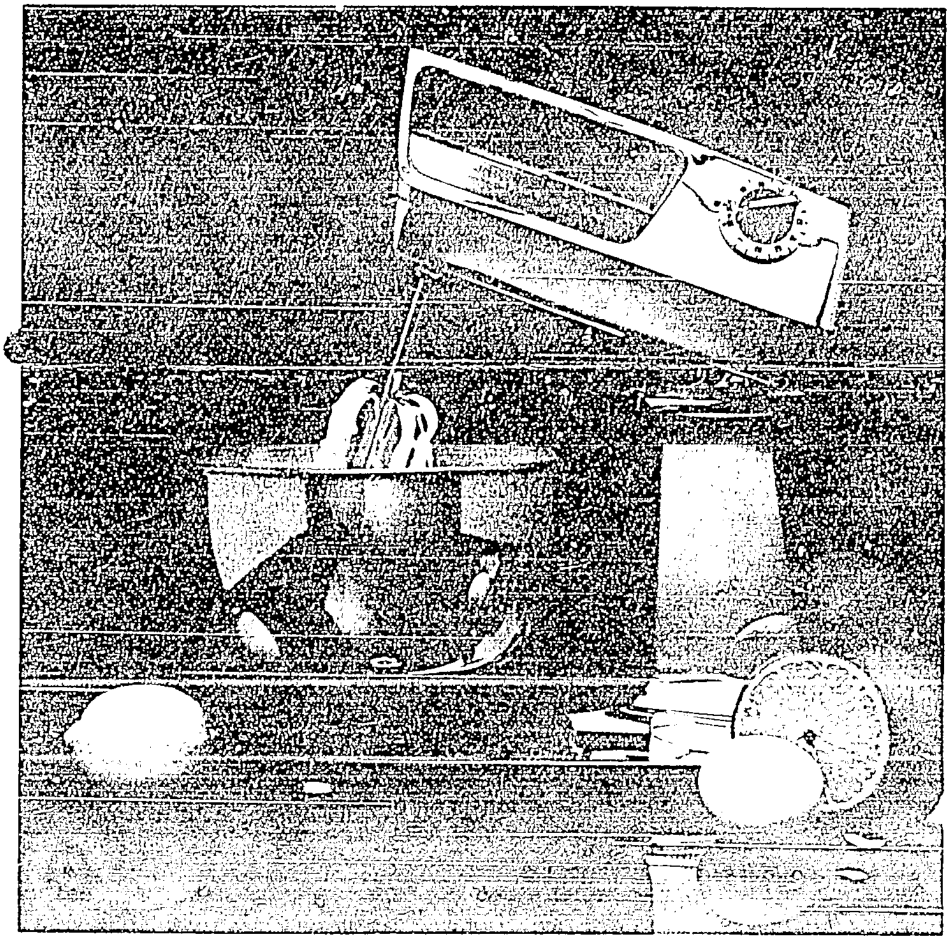


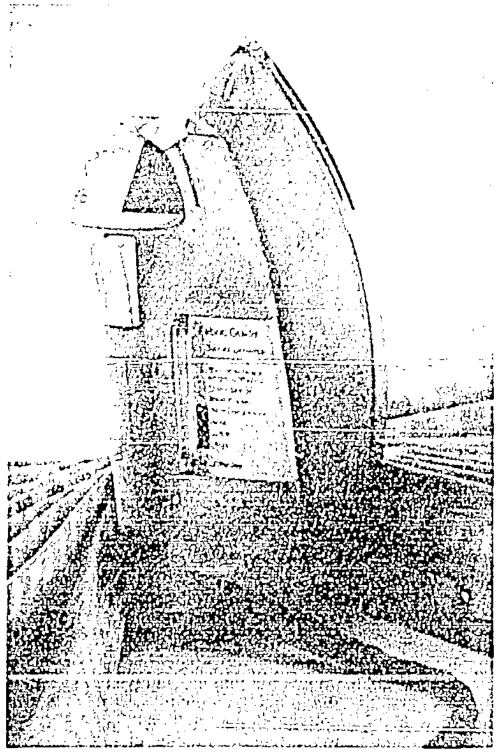




We speak most clearly to our customers through our merchandise. Although we are not a manufacturer, we often redesign hard lines to improve both function and appearance. In certain areas, such as electronics and appliances, we have been able to develop a consistent JCPenney look even though the merchandise comes to us from different manufacturers. These initial efforts—with merchandise that has special appeal for young customers and new families—have shown us that attention to details of coloring and marking can have a dramatic impact on the appearance of a product and be a critical factor at the point of sale.

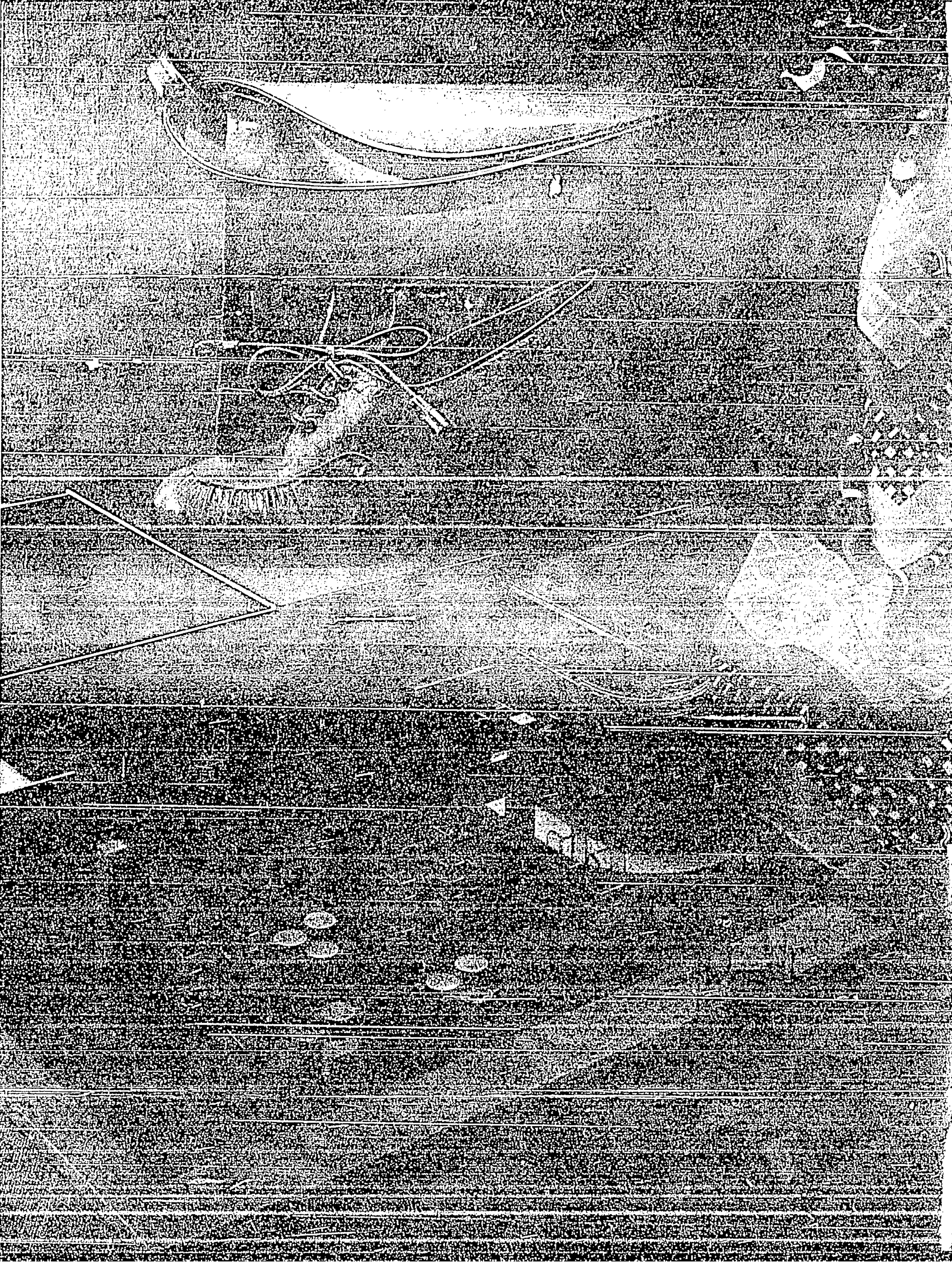






Our overall objective in product design is the satisfaction of the customer. Items such as those shown on these pages are developed by us in partnership with our suppliers. The sewing machine was extensively redesigned by our own staff to incorporate our best ideas for function, safety, and looks.

We see our responsibility to the customer as extending right down to the legibility of the numbers and the clarity of instructions on her rotisserie, mixer, or iron.

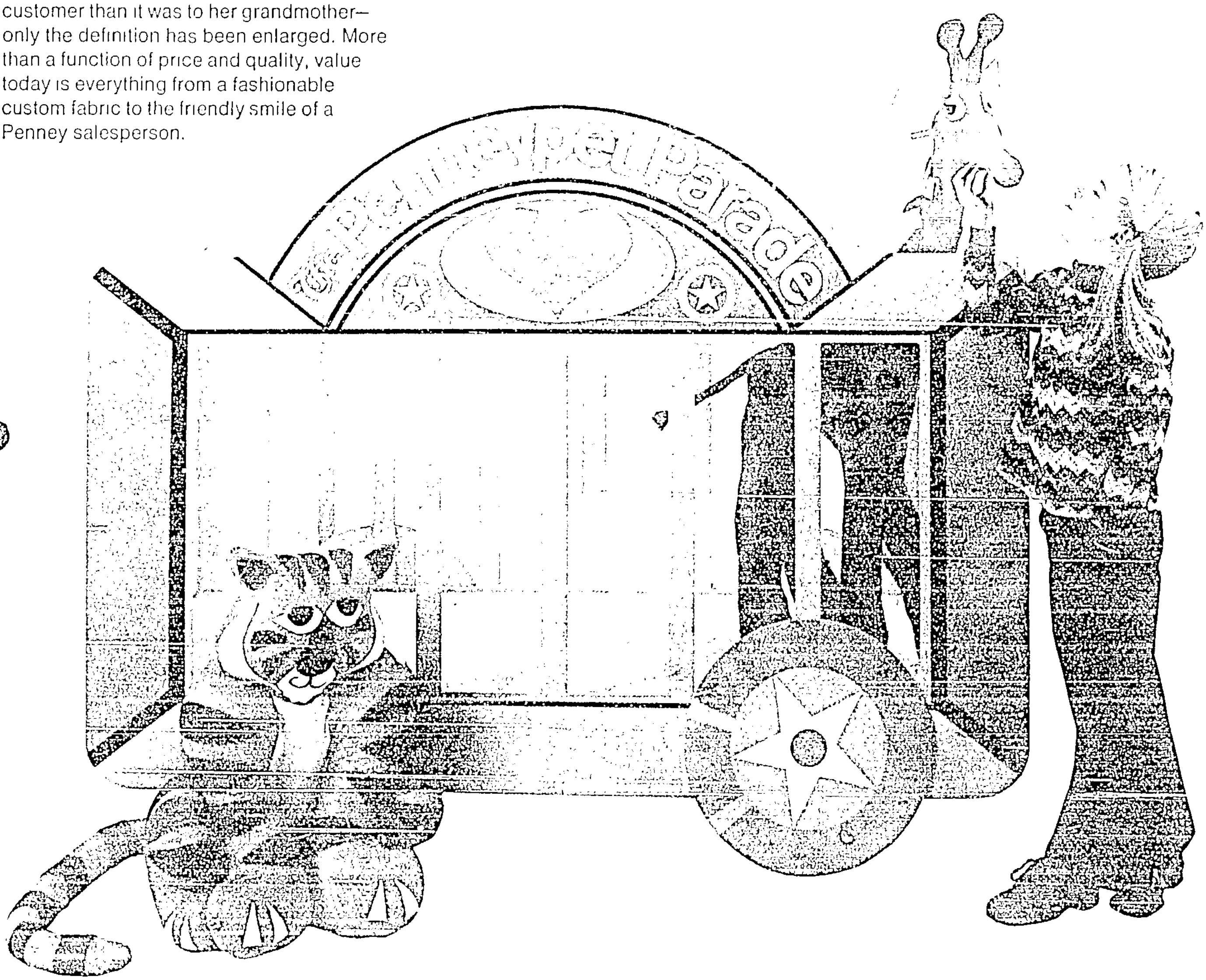


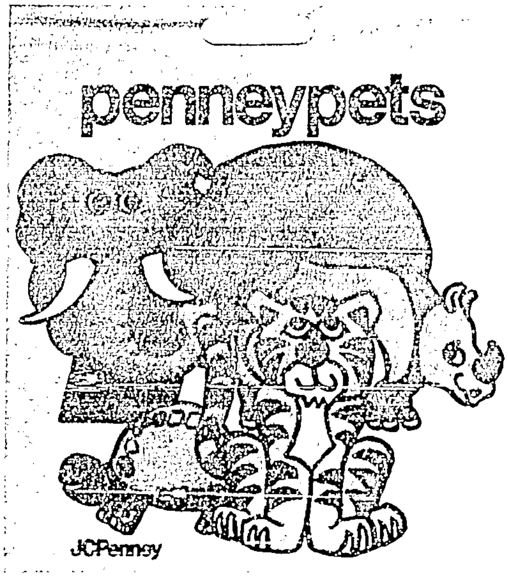
When products and their surroundings support and enhance each other, we have a better chance of influencing the customer favorably. This brings us to the front line of our business, the JCPenney store. Here, our overall design objective is to create a unified message that "you've come to the right place to shop." All aspects of merchandising come into play; among them, the arrangement of aisles and fixtures, signing, and display.

The marketplace has always had a tradition of excitement. We are striving to make our stores exciting places. "Just looking" must be a rewarding experience, full of satisfaction and surprises. Each department, be it hardware or children's wear, is to have its own identity and its own visual appeal.

Store design must convey to the customer in today's hurry-up world both the impression and the fact of convenience. As a result, many departments—including some shoe departments—are adding self-selection features.

Mindful of our JCPenney traditions, we want the look of value to permeate our stores. Value is no less important to today's customer than it was to her grandmother—only the definition has been enlarged. More than a function of price and quality, value today is everything from a fashionable custom fabric to the friendly smile of a Penney salesperson.

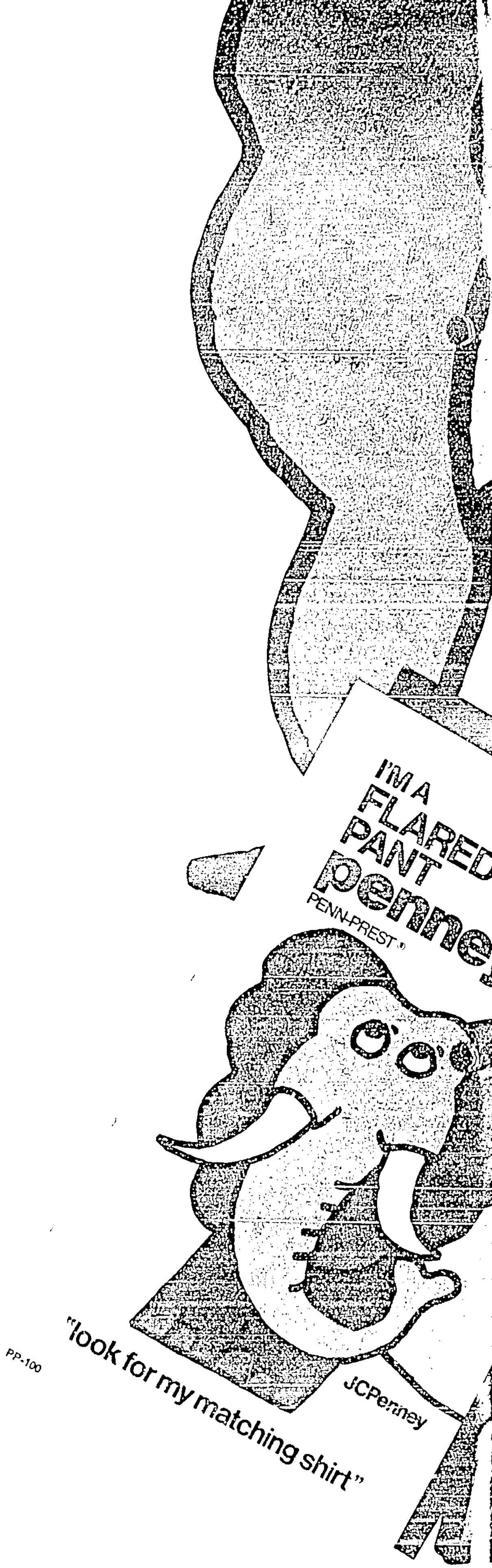


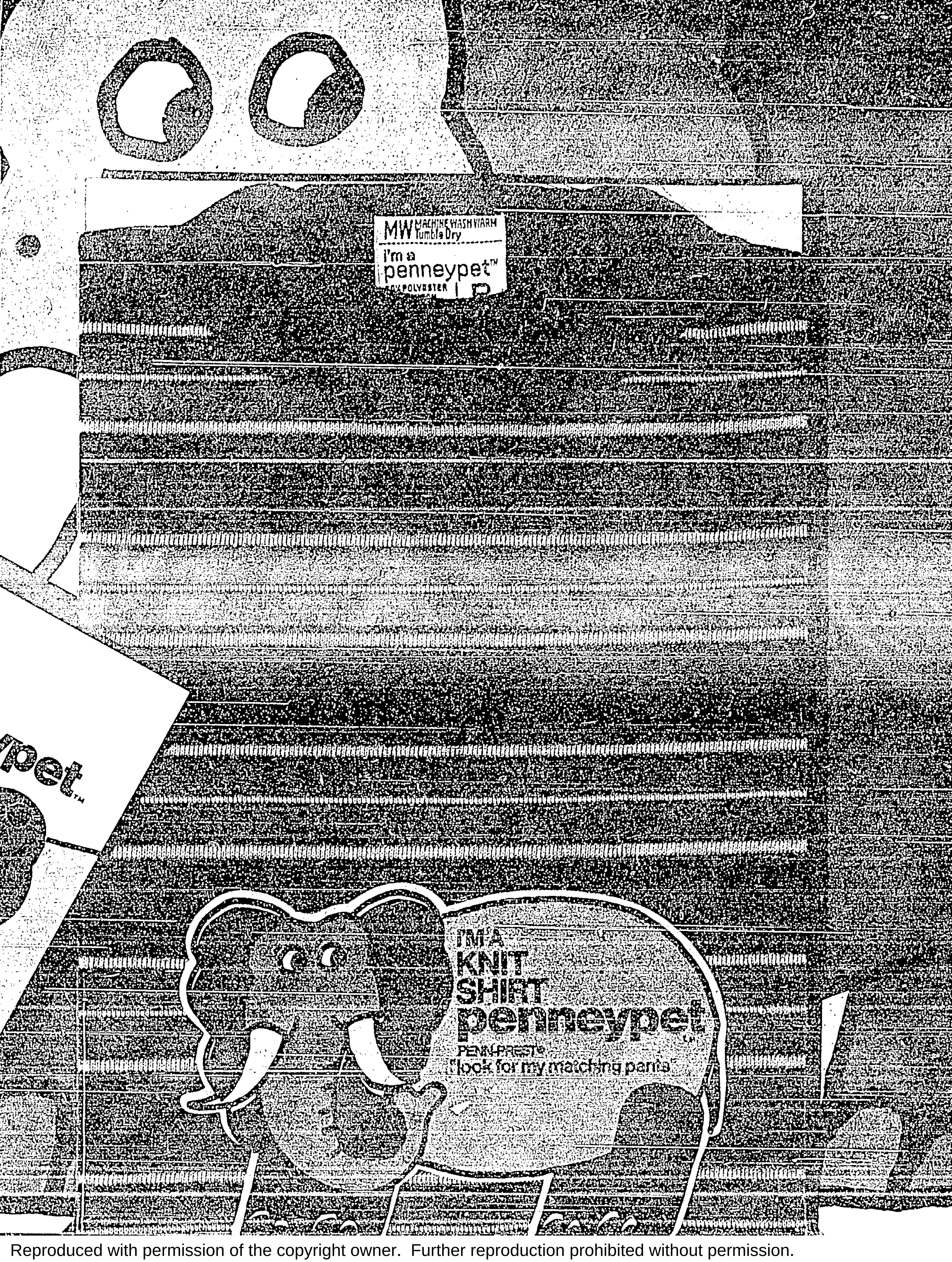


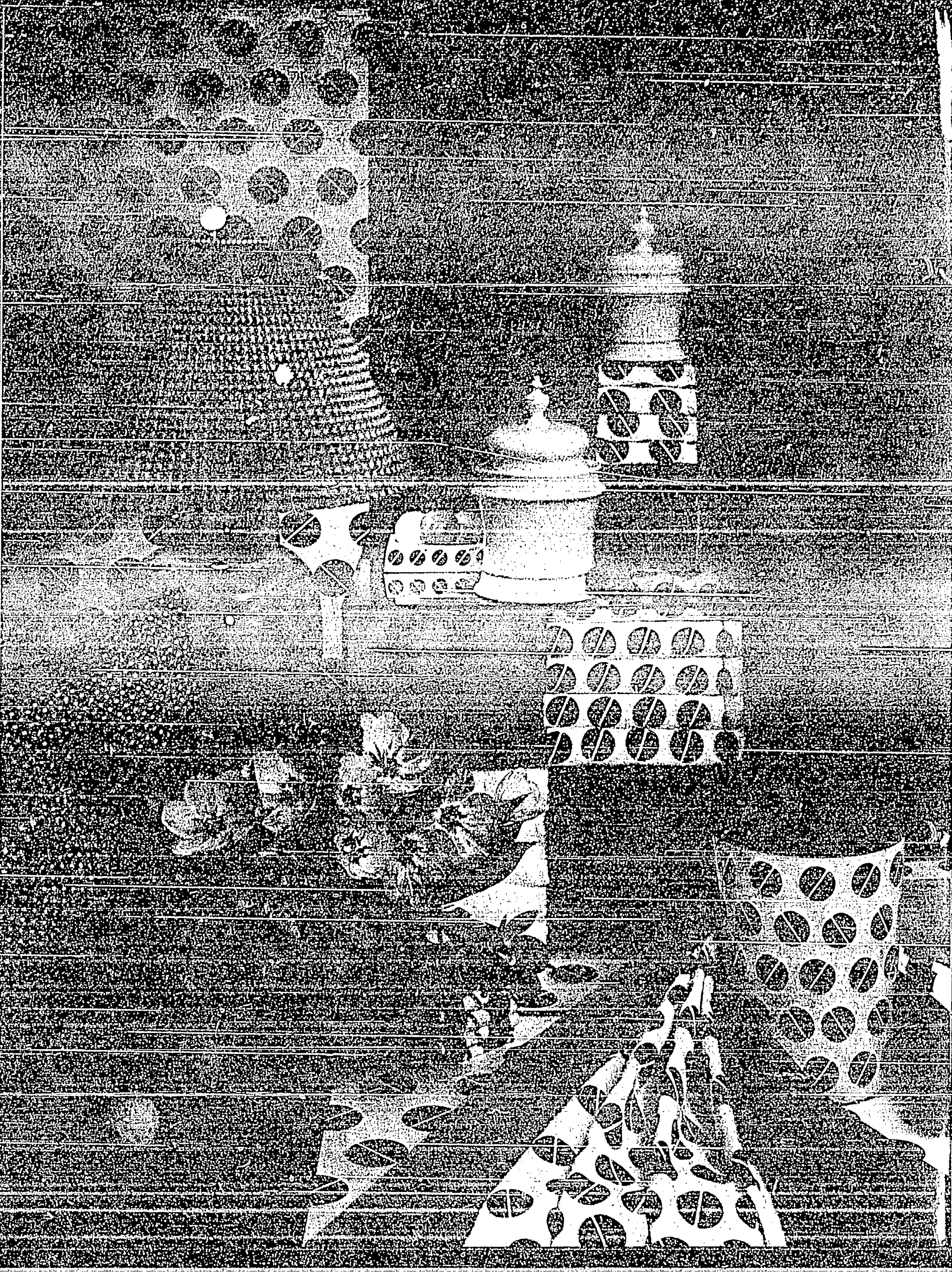
Tags and labels are functional even when they're fun. With Penneypet merchandise, they also help the customer coordinate separates. For boys, for example, all items that carry the blue elephant are color coordinated around a blue theme. In addition, the tiger, turtle, and rhino are used in boyswear, and still other animals are used for girls', toddlers', and infants' lines. In the store, the customer is directed toward them by the Penneypet Parade wagon, which rides atop the merchandise displayer.

Whether attached to soft goods or hard goods, the correctly designed label and tag present with maximum clarity the needed information—such as size, material, use and care, and the new coding system for washing and cleaning instructions. The most important fact is dominant, the second most important fact is next, and so on. Nothing is allowed to clutter up the tag and compete with the needed information. This applies even to the JCPenney signature, which is modest in its size and placement.

Consistency in visual impressions makes good design sense, and if the Penneypet merchandise is any indication, great sales sense.




MW MACHINE WASH WARM Tumble Dry
I'm a penneypet™
I'M A KNIT SHIRT penneypet
PENN-PREST®
look for my matching pants



Closely related to our design system is our recently initiated home colors program.

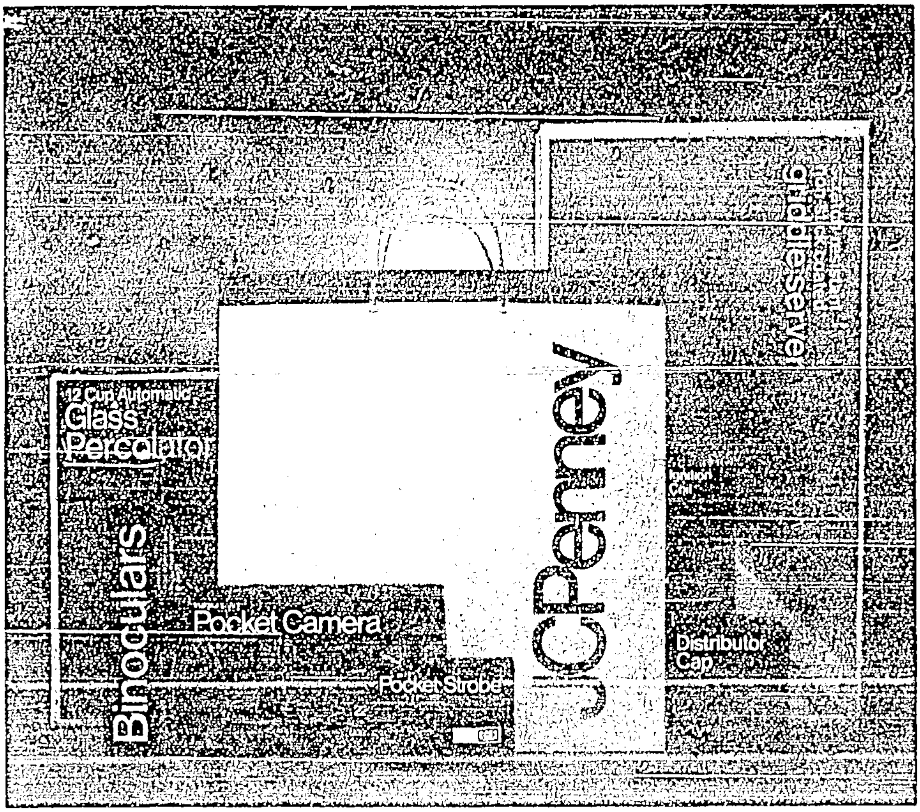
Working with many manufacturers of widely-varied products for the home, we have made sure that a color within any of our color families does not vary from one home product to another, whether a bath towel, shower curtain, lamp, bed sheet, or scrap basket.

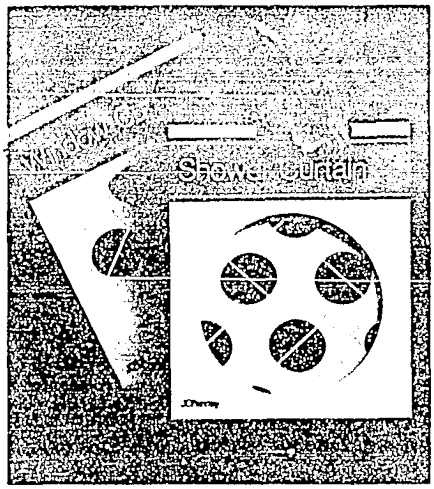
Color coordination has a strong appeal for consumers, particularly those who do not trust their own eye for color. We have found it also enables us to promote merchandise more successfully by featuring colors currently in vogue.

Effectiveness of presentation is also enhanced by packaging design. Today, packaging not only contributes to the look of the store, but makes shopping easier and sells merchandise.

As self-selection expands, customers need to find what they want with minimum effort and frustration. The design system provides the means for organizing necessary customer information clearly and quickly. If a customer is shopping for a shower curtain, the package illustrates its pattern and color while the copy explains "one shower curtain." All unnecessary words or marks are deleted in favor of the simplest and most direct communication.

JCPenney shopping bags, boxes, and wrapping paper are designed to be attractive walking advertisements throughout the shopping mall – and even in competitors' stores.

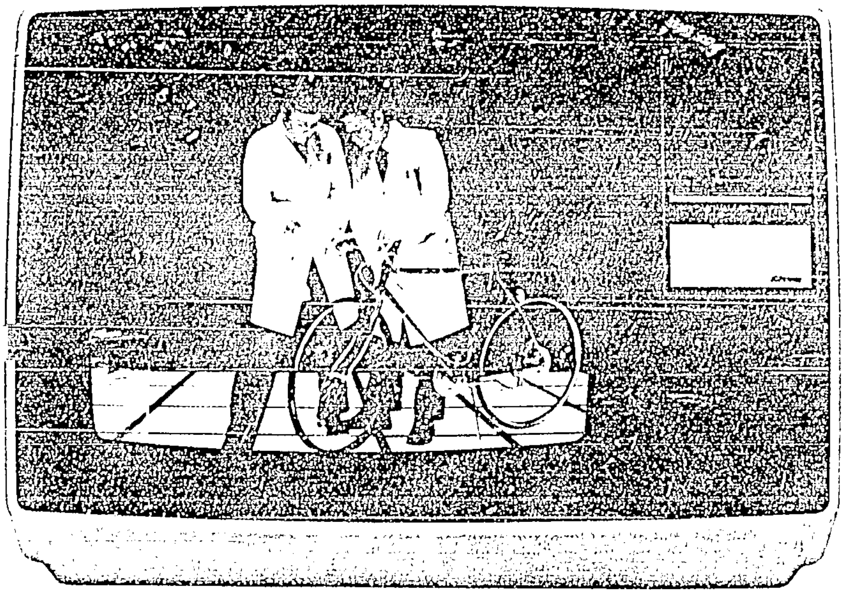


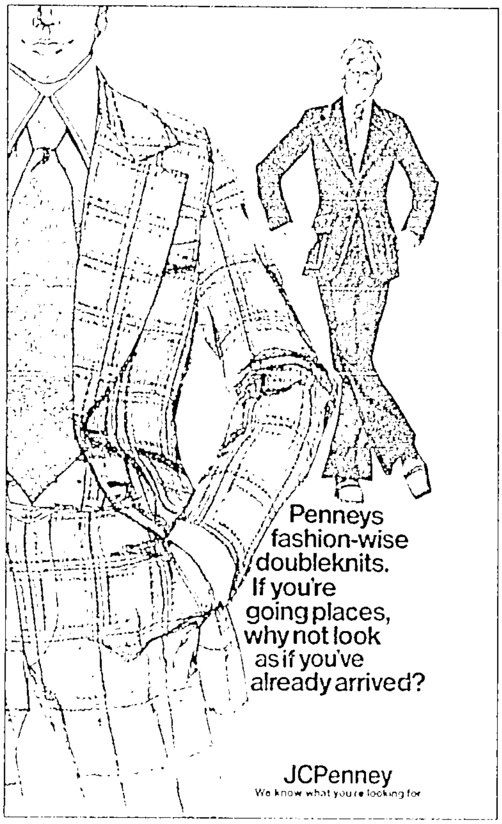


We've given the denim look a soft new twist.

If you think the denim look is nothing but stitches and snaps, come to JCPenney. We've got a soft, cuddly denim-colored yarn you can knit into any look you like. Our Malina yarn comes in three shades of denim. The color in the shawl is Blend 2, for the worn denim look. And Malina yarn is made of 50% Acrilan® acrylic, 50% Spectran® polyester, to wash and dry easily, hold its shape beautifully. $1.29 per 4 oz. skein.

JCPenney



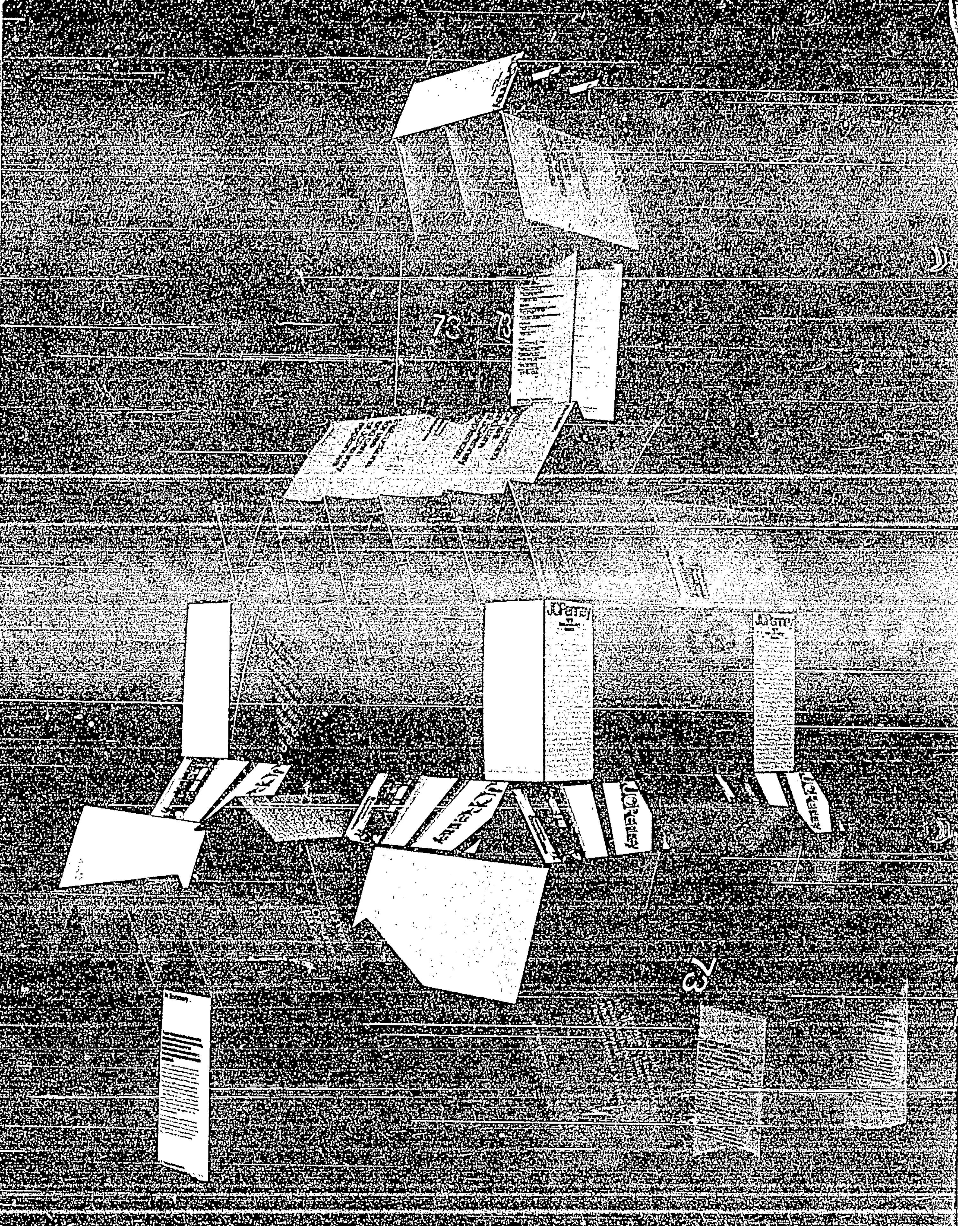


Even before consumers get to the Penney store or leaf through our catalogs, visual messages may have reached them via JCPenney advertising.

Millions of impressions are now being made each week by our advertising—in newspapers and magazines, and on TV and radio—and the number is steadily growing.

In addition to creating awareness of the Company and selling merchandise, our advertising is expected to make a clear, strong contribution to the JCPenney image. In planning our national ads, for example, we look for innovative merchandise that has a distinct Penney edge. Our 10-speed disc brake bike with safety reflective tires is in this category.

Our advertising is a sort of "good will ambassador," preparing consumers to like what they see when they come into the store or look through the catalog. Customers and prospective customers should sense a strong connection between our advertising, our stores and catalog, and our merchandise.


JCPenney

1973 Review of Operations and Financial Information

Sales in 1973 were $6.2 billion, an increase of 12.9 per cent over the $5.5 billion in 1972. Operating divisions contributed to sales as follows:

(In millions)	1973	1972	Per cent increase: All units	Per cent increase: Comparative units
Penney stores				
Full line	$3,111.2	$2,566.8	21.2	10.2
Soft line	2,067.2	2,084.9	(.9)	4.2
Total	5,178.4	4,651.7	11.3	7.5
The Treasury stores	349.9	284.5	23.0	5.5
Drug stores	154.9	132.5	16.9	10.4
Supermarkets	110.9	100.2	10.6	1.4
Mail order	101.1	89.0	13.5	—
European operations	348.5	271.7	28.3	7.5
Total sales	$6,243.7	$5,529.6	12.9	7.5

Catalog merchandise sold through stores is included in the sales of those stores. Drug and supermarket sales through Penney and Treasury stores are included in the sales of the latter divisions. Food sales by European operations are included in that division's sales. Comparative units are those in operation throughout both 1973 and 1972. For further analyses of sales, see the discussion below of each division's operations and the Ten Year Operations Summary on page 31

The table below lists unaudited sales for each quarter:

(In millions)	1973	1972	Per cent increase
First quarter	$1,299.6	$1,106.0	17.5
Second quarter	1,385 3	1,227.2	12.9
Third quarter	1,558 9	1,404.5	11.0
Fourth quarter	1,999.9	1,791.9	11.6
Year	$6,243.7	$5,529.6	12 9

In the ten years ended January 26, 1974, sales have grown at the compound annual rate of 12.7 per cent.

Net income was $185.8 million in 1973, an increase of 11.8 per cent over the $166.1 million earned in 1972. The net income in both years gives effect, on a pooling of interests basis, to the merger with The Educator & Executive Company, which added $3.2 million in 1973 and $3.5 million in 1972.

Income before income taxes and other unconsolidated subsidiaries was $346.0 million in 1973, an increase of 11.2 per cent over the $311.2 million in 1972.

Net income per share increased in 1973 as shown in the following table, listing the unaudited amounts for each quarter:

	1973	1972	Increase
Primary			
First quarter	$ .44	$ .36	$.08
Second quarter	.60	.52	.08
Third quarter	.84	.78	.06
Fourth quarter	1.31	1.22	.09
Year	$3.19	$2.88	$.31
Fully diluted—year	$3.18	$2.87	$.31

In the ten years ended January 26, 1974, primary net income per share has increased at the compound annual rate of 11.8 per cent.

So many and varied printed materials are required by our Company that sometimes we seem to be in the printing business. Whether directed to our customers, our suppliers, our own employees, or to any number of specialized publics, the consistency of the cumulative impression made is most important. Our internal communications have a special priority of attention, as this is the way we demonstrate to all employees the importance of the correct implementation of the design system.

Net income per share is based on the weighted average number of shares outstanding during each period. Primary net income per share assumes conversion of the 6 per cent Eurodollar convertible debentures, and fully diluted net income per share additionally assumes conversion of the 4½ per cent Eurodollar convertible debentures and exercise of outstanding stock options.

The quarterly dividend declared was 27 cents per share in the first quarter and 28 cents per share in each of the last three quarters, for a 1973 total of $1.11 per share, compared with $1.05 in 1972 Dividends declared were 34 8 per cent of net income per share in 1973 Dividends declared totaled $64.5 million in 1973 and $59.6 million in 1972.

Income tax expense increased in 1973 as follows:

(In millions)	1973	1972
Current		
Federal	$111.1	$102 0
State and local	16.1	13.1
	127.2	115 1
Deferred		
Federal	39.1	36 1
State and local	4.0	4.1
	43 1	40.2
Total income tax expense	$170 3	$155.3
Effective tax rate on income before income taxes and other unconsolidated subsidiaries	49 2%	49 9%

Deferred taxes arise principally from the effects of deferred gross profit on the balances due from installment sales and the effects of accelerated depreciation

The effective tax rate exceeds the United States Federal income tax statutory rate of 48 per cent as shown below.

	1973		1972	
	Amount (millions)	Per cent of pre-tax income	Amount (millions)	Per cent of pre-tax income
Federal income tax at 48 per cent rate	$166.1	48.0	$149.4	48.0
Investment credits	(5.8)	(1.7)	(5.7)	(1 8)
State and local income taxes, less Federal income tax benefit	10 1	2 9	8.4	2.7
Other	(.1)	—	3 2	1.0
Total income tax expense	$170.3	49 2	$155.3	49.9

Taxes other than income taxes, over half of which are payroll taxes, totaled $108.1 million in 1973, up from $92.3 million in 1972

Retail units and net selling space increased as follows:

	1973		1972	
	Number of units	Net selling space (000 sq ft)	Number of units	Net selling space (000 sq ft)
Additions				
Penney stores				
Full line	24	2,309	38	3,773
Soft line	3	29	1	12
The Treasury stores	2	234	4	468
Drug stores	24	242	14	111
Supermarkets	2	35	2	45
European operations	3	126	6	496
Expansions and other	—	89	—	56
Total	58	3,064	65	4,961
Closings				
Penney soft line stores				
Relocations	21	422	25	409
Other	13	438	11	186
Total	34	860	36	595
Drug stores	1	3	3	11
Supermarkets	1	11	1	13
European operations	6	37	3	18
Total	42	911	43	637
Net increase	16	2,153	22	4,324
Total in operation at end of year	2,015	55,845	1,999	53,692

A listing of 1973 store openings appears on page 33 A history of retail units and net selling space is included in the Ten Year Operations Summary on page 31.

Full line Penney stores, which average 87,000 square feet of net selling space, are located primarily in major shopping centers and sell broad lines of apparel, home, and automotive merchandise. Most stores have a catalog sales center. Over half of the Company's full line store space has been in operation less than five years.

Full line stores' profit and profit margin increased in 1973, chiefly as a result of higher sales.

Soft line Penney stores, which average 12,000 square feet of net selling space, sell principally apparel and household textile merchandise. Most stores have a catalog sales center. Almost all soft line stores are over ten years old, and the average store has been in operation about 40 years

Soft line stores' profit and profit margin changed little from the 1972 levels.

The Treasury stores average 120,000 square feet of net selling space and offer broad lines of general merchandise, apparel, food, and health and beauty aid products. Almost all of these discount type stores include a food supermarket of approximately 20,000 square feet, a pharmacy, and an automotive center. In addition, the Company is testing the operation of catalog sales centers in selected Treasury units

The Treasury operations recorded a profit in 1973, compared with a small loss the year before. The improvement resulted primarily from increased sales due to a larger base of mature stores

Drug stores are operated by Thrift Drug under its name and under the name of The Treasury Drug Center, which has been designated for use in selected markets.

The Company's drug stores, which average 6,400 square feet of net selling space, offer prescription drugs, health and beauty aid products, and other drug store type merchandise, with prescription drugs accounting for approximately 24 per cent of 1973 sales. In addition, the Company is testing the operation of catalog sales centers in some of the units opened in 1973.

At year end, Thrift Drug operated drug and health and beauty aid departments in 25 The Treasury and 10 Penney full line stores. The results of these operations are included in the results of those divisions.

Drug stores' profit margin declined from the prior year, but there was little change in profit.

Supermarkets, which average 15,000 square feet of net selling space, are located primarily in department and discount stores operated by other retailers. The results of food supermarket operations in The Treasury, Penney full line, and European stores are included in the results of those divisions.

Profit in 1973 was about the same as in the prior year.

Mail order consists of catalog operations serving customers who order merchandise directly by mail. Profit margin increased from the prior year.

Total catalog sales, comprising sales by mail order and through catalog sales centers in stores, were $478.8 million in 1973, up 23.4 per cent from $388.0 million in 1972.

Catalog sales centers contributed to divisional sales as follows:

(In millions)	1973	1972	Per cent increase: All units	Per cent increase: Comparative units
Penney stores				
Full line	$133.8	$ 98.3	36.1	24.0
Soft line	243.1	200.7	21.2	18.6
The Treasury stores and drug stores	.8	—	—	—
Total	$377.7	$299.0	26.3	20.3

The number of catalog sales centers in stores at each year end is shown below:

(Number of units)	1973	1972
Penney stores		
Full line	259	236
Soft line	968	895
The Treasury stores and drug stores	16	—
Total	1,243	1,131

European operations consist of stores in Belgium and Italy.

In Belgium, 85 stores were operated under the name Sarma, selling food, general merchandise, and apparel. These stores average 19,000 square feet of net selling space. Approximately 36 per cent of net selling space has been opened within the past three years. Belgian operations also include sales to franchised stores, which numbered 220 at year end. Food represented 61 per cent of total volume in 1973.

In Italy, four stores were operated under the Penney name, offering principally apparel and household textile merchandise, with an average of 47,000 square feet of net selling space. The Italian operations began in 1971.

The following table shows a breakdown of European sales, which exclude value added taxes:

(In millions)	1973	1972	Per cent increase
Belgium	$334.0	$262.5	27.3
Italy	14.5	9.2	56.9
Total	$348.5	$271.7	28.3

In local currencies, sales increased 12.8 per cent in Belgium and 60.6 per cent in Italy.

European operations continued to experience a loss in 1973, although there was considerable improvement over the prior year in both countries

Net assets of the European operations were $58.2 million at year end 1973, compared with $48.3 million at year end 1972.

Investment in unconsolidated subsidiaries was $279.2 million at year end 1973, compared with $236.8 million at year end 1972. The following tabulation shows a breakdown of the investment, stated at Penney's equity in net assets:

(In millions)	January 26 1974	January 27 1973
J. C. Penney Financial Corporation (see page 22)	$213.3	$177.2
Consumer financial services companies	63.5	53.8
JCP Realty, Inc.	1.8	1.7
Other	.6	4.1
Total	$279.2	$236.8

Consumer financial services, which consist of the operations of insurance companies, contributed $9 9 million to net income in 1973, compared with $9 8 million in 1972. Improved results in life, accident, and health direct mail operations were offset by the effects of automobile insurance rate reductions and lower margins on certain other lines of health insurance.

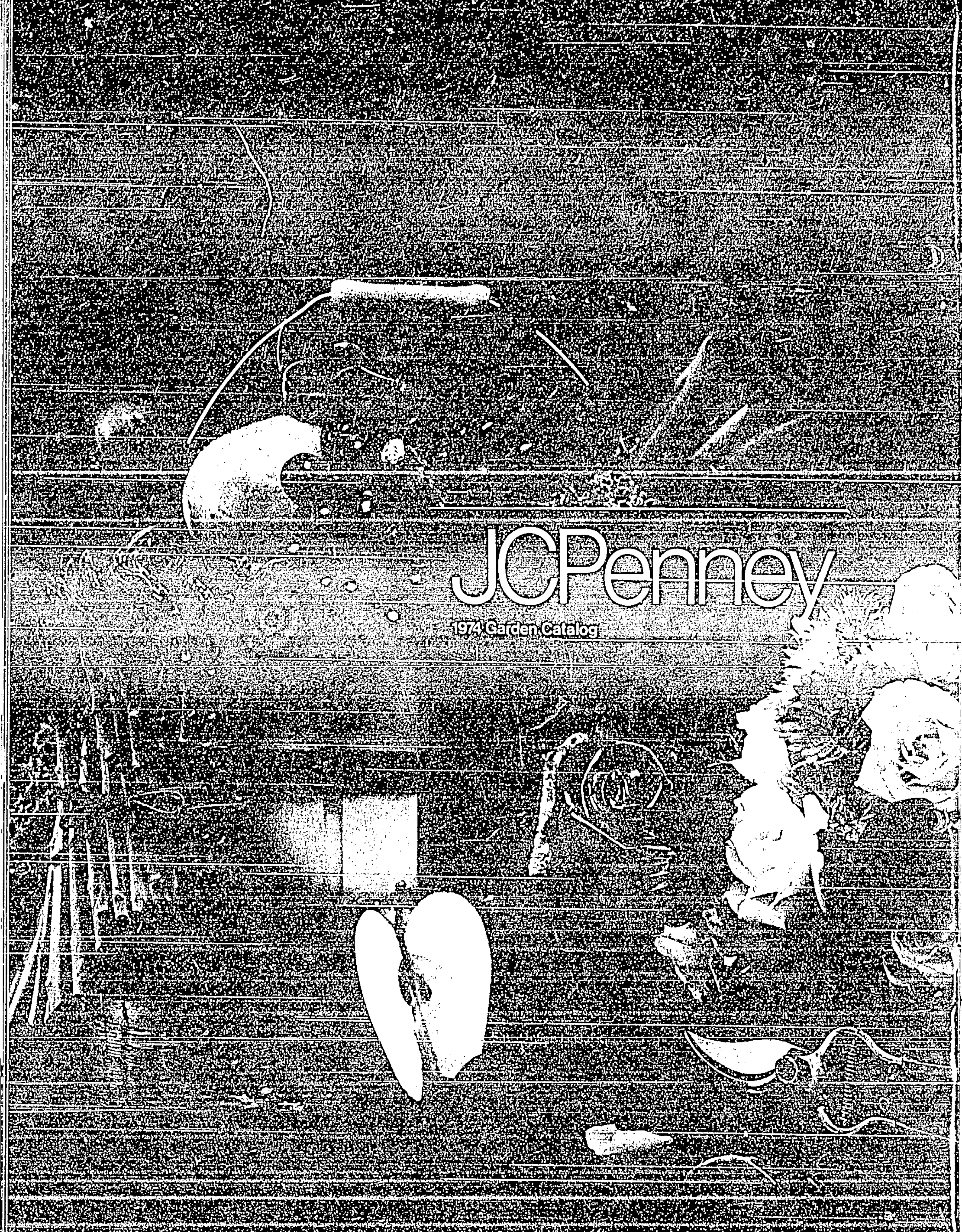
The merger with The Educator & Executive Company added automobile and homeowners' casualty insurance to the financial services offered by Penney subsidiaries. Great American Reserve Insurance Company and the two JCPenney insurance companies offer life, accident, and health insurance plans nationwide.

At the end of 1973, life insurance in force totaled $2 2 billion. There were approximately 507,000 life, accident, and health insurance policyholders, excluding those covered under group plans. Automobile and homeowner policyholders totaled 184,000.

Combined condensed financial statements of the insurance operations, in accordance with generally accepted accounting principles, are as follows:

Statement of income

(In millions)	1973	1972
Premiums written		
Life and health	$55.9	$50.4
Fire and casualty	25 6	22.8
Total	$81.5	$73.2
Underwriting income		
Life and health	$ 3.0	$ 3.1
Fire and casualty	2.0	3.1
Total	5.0	6.2
Investment income		
Life and health	7.0	5.8
Fire and casualty	1.9	1.9
Total	8.9	7.7
Income before income taxes	13 9	13.9
Income taxes	4 0	4.1
Net income	$ 9.9	$ 9.8


JCPenney
1974 Garden Catalog

Balance sheet

(In millions)	December 31 1973	December 31 1972
Assets		
Bonds, at amortized cost	$ 89 9	$ 75 0
Stocks, at cost	23 7	19.0
Loans	33 7	33.5
Real estate, net	17 8	18 3
Other assets	33.7	29 9
	$198 8	$175.7
Liabilities		
Policy and claims reserves	$108 9	$ 98 3
Other liabilities	5 2	3 7
Income taxes	9.7	8 9
Mortgage debt	11.5	11.0
Equity of J. C. Penney Company, Inc.	63 5	53 8
	$198 8	$175 7

JCP Realty, Inc. is engaged in the development and operation of shopping centers through participation in joint ventures The first two such shopping centers were opened in 1973 Realty has investments in six other joint ventures, of which two are under construction and four are in the planning stage.

Credit sales in 1973 rose to a record $2.2 billion, up 13.8 per cent from $2.0 billion in 1972. The proportion of credit sales to total sales increased to 39 4 per cent in 1973 from 38 7 per cent in 1972. In computing these percentages, the sales of supermarkets and European operations are excluded because they do not offer consumer credit

Approximately 90 per cent of total credit sales was on the regular charge account plan; the balance was principally on the time payment account plan. At year end, the number of accounts with balances was 8.4 million regular accounts and .8 million time payment accounts. The average account balance at year end was as follows:

	1973	1972
Regular	$134	$122
Time payment	249	221
All	145	131

Monthly payments under both plans are based on the account balance, with a minimum monthly payment of not less than $10 for regular accounts and $5 for time payment accounts. Monthly finance charges do not exceed 1½ per cent of account balances, subject to minimum charges in certain circumstances.

During 1973, monthly collections averaged 18 0 per cent of customer receivables for regular accounts and 10.3 per cent for time payment accounts.

Account balances in which any portion was three months or more past due represented 4 2 per cent of the amount of customer receivables at year end 1973

The Company's policy is to write off accounts when a scheduled payment has not been received within six months of the due date, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses

The net cost of the retail credit operation increased in 1973 due principally to higher interest expense and an increase in the provision for doubtful accounts, as shown below:

(In millions)	1973	1972
Service charge income	$153.1	$123.9
Costs		
Administration	88.6	77.3
Interest	77.1	39.0
Provision for doubtful accounts	38 2	24.3
Income taxes	(25.0)	(8.3)
	178.9	132.3
Net cost of credit	$ 25 8	$ 8.4
Net cost as per cent of credit sales	1.2%	0.4%

Administration includes the costs of operating credit regional offices and that portion of store costs related directly to credit activities.

Interest is computed at the average rate for borrowings of J. C. Penney Financial Corporation applied to the average total customer accounts receivable after subtracting deferred income taxes resulting from installment sales.

The provision for doubtful accounts consists of net bad debt losses plus the accrual required to maintain the allowance for doubtful accounts at 2 per cent of customer receivables Net bad debt losses increased in 1973 to $34.2 million, or 1 5 per cent of credit sales, from $19 9 million in 1972, or 1.0 per cent of credit sales

Income taxes are based upon the Company's effective income tax rate.

Class actions have been instituted in a number of states against retailers, in some cases including the Company, seeking substantial recoveries and a reduction of monthly service charges applicable to revolving charge accounts. The ultimate consequences of all the pending actions are not presently determinable but will not in the opinion of management have a material adverse effect on the Company's financial position or results of operations.

Receivables increased in 1973 as follows:

(In millions)	January 26 1974	January 27 1973
Customer receivables		
Regular charge account plan	$1,126 8	$ 963.7
Time payment account plan	207 8	170.0
	1,334 6	1,133.7
Less receivables sold to J C Penney Financial Corporation	1,252.8	1,098.2
	81.8	35.5
Due from J. C Penney Financial Corporation	62.6	54.9
Other receivables	97.9	79.3
	242.3	169 7
Less allowance for doubtful accounts	26 7	22.7
Receivables, net	$ 215 6	$ 147.0

Customer receivables due after one year were approximately $212 million at year end 1973, compared with $113 million at year end 1972.

Words and pictures must be combined in our catalogs to present merchandise in an attractive visual environment and at the same time convey the facts consumers need to make informed buying decisions. Our garden catalog was introduced in 1973.

J. C. Penney Financial Corporation purchased $2.3 billion of customer receivables from Penney in 1973, up from $2.0 billion in 1972. Financial withholds, pending collection, an amount equal to 5 per cent of the receivables so acquired. In addition, it charges a discount which is calculated to produce earnings that cover fixed charges, chiefly interest on borrowings, at least one and one-half times.

To finance its purchases of receivables, this subsidiary sells its short term notes (commercial paper and master notes) at prime market rates directly to investors, utilizes short term bank borrowings, and from time to time issues long term debt. Average commercial paper and master note borrowings in 1973, net of short term investments, were $784.8 million, compared with $660.3 million in 1972. Interest expense increased sharply, principally as a result of higher short term rates, which averaged 8 2 per cent in 1973, compared with 4.5 per cent in 1972. The rate of interest paid on total debt averaged 8.0 per cent, up from the 1972 average of 5.0 per cent.

During 1973, Penney made a capital contribution of $15 million to Financial.

Following is the comparative condensed balance sheet of J. C. Penney Financial Corporation:

(In millions)	January 26 1974	January 27 1973
Assets		
Customer receivables	$1,252.8	$1,098.2
Other assets	11.4	2 7
	$1,264 2	$1,100.9
Liabilities		
Notes payable	$ 759 9	$ 686.6
Accrued liabilities	16 6	7 9
Due to J. C. Penney Company, Inc	62 6	54.9
Long term debt	211 8	174 3
Equity of J C. Penney Company, Inc.	213 3	177.2
	$1,264 2	$1,100.9

Financial's obligations are not guaranteed by Penney. At year end, there were confirmed lines of credit with 507 banks totaling $795.5 million available to either Penney or Financial, none of which was in use.

The complete financial statements of J. C. Penney Financial Corporation are contained in its 1973 annual report, which will be made available upon request.

Interest expense increased to $89.7 million in 1973, from $59.8 million in 1972, largely as a result of sharply higher short term interest rates. The following table details the principal components of interest expense:

(In millions)	1973	1972
Discount on customer receivables sold to J. C. Penney Financial Corporation	$108.8	$57 4
Interest on advances from J. C. Penney Financial Corporation	8.4	6.7
Interest on long term debt	17.6	16.1
Other interest, net	.8	5.0
	135.6	85.2
Less		
Income of J C. Penney Financial Corporation before income taxes	40.6	21.9
Capitalized interest on construction in progress and land held for future use	5.3	3 5
	45.9	25.4
Total interest expense	$ 89 7	$59 8

Merchandise inventories rose to $1,138.0 million at year end, an increase of 8.7 per cent over the $1,047.1 million at year end 1972. The increase in inventories was due to higher volume and merchandise in new stores.

Working funds increased $70.4 million during 1973, compared with an increase of $178.0 million in 1972. Working funds consist of current assets less current liabilities, excluding deferred credits, principally tax effects applicable to installment sales. Following is an analysis of changes in working capital and working funds:

(In millions)	1973	1972
Cash	$(16 2)	$(10.3)
Receivables, net	68.6	36 8
Merchandise inventories	90.9	167 7
Properties to be sold under sale and leaseback agreements	(17.2)	8 4
Prepaid expenses	8.2	3 8
Accounts payable and accrued liabilities	(55.6)	(56.8)
Dividend payable	(1.0)	(.7)
Due to unconsolidated subsidiaries	—	1 0
Income taxes and deferred credits	(37.5)	(8.7)
Increase in working capital	40 2	141.2
Deferred credits, principally tax effects applicable to installment sales	30.2	36 8
Increase in working funds	$ 70 4	$178.0

Properties at year end were as follows:

(In millions)	January 26 1974	January 27 1973
Land	$ 43 8	$ 35 8
Buildings	174 8	163.9
Fixtures and equipment	609.4	548 1
Leasehold improvements	101 2	87 5
Construction in progress and land held for future use	92.1	60.4
	1,021.3	895.7
Less accumulated depreciation and amortization	326.0	291.7
Properties, net	$ 695 3	$604.0

In 1973, Penney sold 16 store properties for $68.7 million and leased them back. These transactions had no effect on net income.

Capital expenditures in 1973 totaled $209.6 million, up from $185.5 million in 1972. Included in this amount were expenditures of $24.9 million to modernize and renovate older stores. The following tabulation shows 1973 and 1972 capital expenditures:

(In millions)	1973	1972
Land	$ 6.3	$ 15.5
Buildings	37.5	79.9
Fixtures and equipment	89.3	80.9
Leasehold improvements	12.5	18.6
Construction in progress and land held for future use	64 0	(9 4)
Total capital expenditures	$209.6	$185.5

Capital expenditures by landlords were approximately $80.0 million in 1973, compared with $85.0 million in 1972.

Rent expense for real and personal property increased to $192.7 million in 1973 from $170.8 million in 1972. Minimum annual rents at year end amounted to $120.5 million. The principal difference between rent expense and minimum annual rents is rent based upon sales. Almost all leases will expire during the next 30 years. Leases are, however, usually either renewed or replaced by leases on other properties.

The Company has revised its method of computing lease commitments to conform with guidelines recently published by the Securities and Exchange Commission. Based upon these guidelines, Penney's commitments under noncapitalized financing leases were $608 million at year end 1973 and $521 million at year end 1972 These commitments are stated at the present value of all future minimum payments under these leases after excluding executory expenses, which are property taxes, maintenance, insurance, and other amounts that do not constitute payments for property rights Rent expense applicable to noncapitalized financing leases was $72 0 million in 1973 and $60.2 million in 1972. Minimum annual rents under noncapitalized financing leases at year end amounted to $66 3 million including executory expenses. If financing leases had been capitalized and the resultant property rights amortized on a straight line basis over the primary terms of these leases, net income would have been reduced $8 1 million in 1973 and $5.0 million in 1972 These computations are based upon the following:

(In millions)	1973	1972
Amortization of property rights	$21.0	$16.3
Interest on related lease obligations	$42.9	$33.2
Weighted average interest rate	7.8%	7.8%
Interest rate range	4 0-9.4%	4.0-9 4%

Advertising expense for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $127 3 million in 1973, up from $113 6 million in 1972.

Penney's long term debt at each year end was as shown below:

(In millions)	January 26 1974	January 27 1973
8⅞ per cent sinking fund debentures due 1995	$150.0	$150.0
6 per cent Eurodollar subordinated debentures due 1989, convertible at $54.50	11 2	12.4
4½ per cent Eurodollar subordinated debentures due 1987, convertible at $86	35 0	35 0
5.75 to 9.65 per cent Belgian franc loans due through 1996	15.3	15.4
Other	8.5	4.1
Total long term debt	$220.0	$216 9

The 8⅞ per cent sinking fund debentures may not be redeemed prior to July 15, 1980, by debt refunding at an annual interest cost lower than 8.93 per cent. An annual sinking fund of $9 3 million starts in 1980. The indenture contains provisions that restrict payments of cash dividends and the purchase of capital stock for cash. As of January 26, 1974, approximately $640 million of reinvested earnings were free of such restrictions.

The Belgian franc loans translated at the rate of exchange in effect on January 26, 1974, would be $17.4 million.

To provide for conversion of debentures, 612,335 shares of Penney common stock were reserved at January 26, 1974.

Stockholders' equity rose to $1,313.9 million at year end 1973 from $1,153.5 million at year end 1972.

The return on stockholders' equity declined to 16.1 per cent in 1973 from 16.6 per cent in 1972.

The following table shows the changes that occurred in outstanding common stock:

	Shares		Amount (millions)	
	1973	1972	1973	1972
Balance at beginning of year as previously reported	57,091,093	56,386,806	$273 8	$228 5
Issued upon merger with The Educator & Executive Company	866,250	866,250	7.9	7.9
Balance at beginning of year as restated	57,957,343	57,253,056	281.7	236.4
Issued upon conversion of debentures				
6 per cent	22,948	40,463	1.2	2.2
5 per cent	—	215,479	—	12.7
Stock options exercised	62,807	134,371	2.2	4.4
Issued to savings and profit-sharing plan	428,580	185,752	32.0	16 2
Issued under stock bonus plan	55,727	124,527	3 8	9 5
Other	—	3,695	—	.3
Balance at end of year	58,527,405	57,957,343	$320 9	$281.7

The number of stockholders increased to approximately 75,000 at 1973 year end from about 74,000 at 1972 year end. At 1973 year end, there were also approximately 69,000 employees owning beneficially 3.8 million shares of Penney common stock through the savings and profit-sharing plan

Employment at year end totaled approximately 200,000, of whom 189,932 were employed in the continental United States A summary based upon the Company's consolidated Employer Information Reports EEO-1 for 1973 year end to the United States Equal Employment Opportunity Commission is shown below:

Category	Total	Female	Minority
Officials, managers, and professionals	23,210	7,547	1,244
Sales workers	89,795	73,850	6,637
Office and clerical workers	46,162	39,882	5,129
Technicians, craftsmen, and operatives	14,675	6,467	2,288
Laborers and service workers	16,090	5,975	3,076
Total	189,932	133,721	18,374

Included among the officials, managers, and professionals were 2,866 management trainees, of whom 842 were female and 298 were minority.

Copies of the Company's consolidated Employer Information Reports EEO-1 for 1973 year end will be made available upon request.

Retirement plans. Retirement expense was as follows:

(In millions)	1973	1972
Pension	$17.8	$17.7
Savings and profit-sharing	15.2	13.5
Total	$33.0	$31.2

The Company's principal pension plan covers substantially all United States employees who have completed 30 months of continuous service. The current pension plan, which became effective January 1, 1972, is noncontributory. Participant contributions to the prior pension plan, with accumulated interest, are, at the option of participants, either being refunded or being transferred to the savings and profit-sharing plan.

Current pension costs are funded annually as incurred, and all vested benefits are fully funded. The unfunded past service liability at year end was $26.4 million. The estimated annual rate of future income from pension plan assets was increased to 5 per cent in 1973 from the 4 per cent previously in effect. If the 5 per cent rate had been in effect in 1972, pension expenses would have been approximately $15.8 million in that year.

The savings and profit-sharing plan encourages savings by allocating 4½ per cent of the Company's profit before Federal income tax to participants who save under the plan.

Condensed financial statements of the combined retirement plans are as follows:

Balance sheet

(In millions)	December 31 1973	December 31 1972
Assets		
Penney common stock at market value: 3,832,358 shares in 1973; 3,618,161 shares in 1972	$275.0	$327.0
Funds with insurance companies	119.8	128.2
Other investments at market value	76.2	90.6
Other assets, net	31.4	34.2
	$502.4	$580.0
Liabilities		
Refunds due to participants	$ 15.1	$ 32.1
Reserved for pensions:		
Retired participants	6.1	4.4
Active participants	58.8	62.8
Participants' equity in savings and profit-sharing plan	422.4	480.7
	$502.4	$580.0

Statement of changes in retirement plans assets

(In millions)	1973	1972
Total assets at January 1	$580.0	$481.7
Company contributions	33.1	33.2
Participants' contributions	33.5	31.9
Contributed assets of acquired plans	—	1.7
Dividends, interest, and other income	12.2	12.0
Market appreciation of investments	(90.9)	68.3
Participants' contributions refunded	(13.1)	(3.6)
Benefits paid	(52.4)	(45.2)
Total assets at December 31	$502.4	$580.0

Stock bonus plan. Under the Company's stock bonus plan, 59,233 shares of common stock were earned in 1973, compared with 133,912 in 1972. This plan expired at year end.

The Board of Directors adopted a new stock bonus plan, effective January 27, 1974, subject to approval by the stockholders at the annual meeting to be held on May 21, 1974. Under this plan, 407,000 shares of common stock will be reserved for issuance under awards to employees. Awards will be available to be earned during one or more of the three fiscal years beginning with 1974.

Stock options. At January 26, 1974, there were 52,584 shares of common stock reserved for qualified stock option plans as follows:

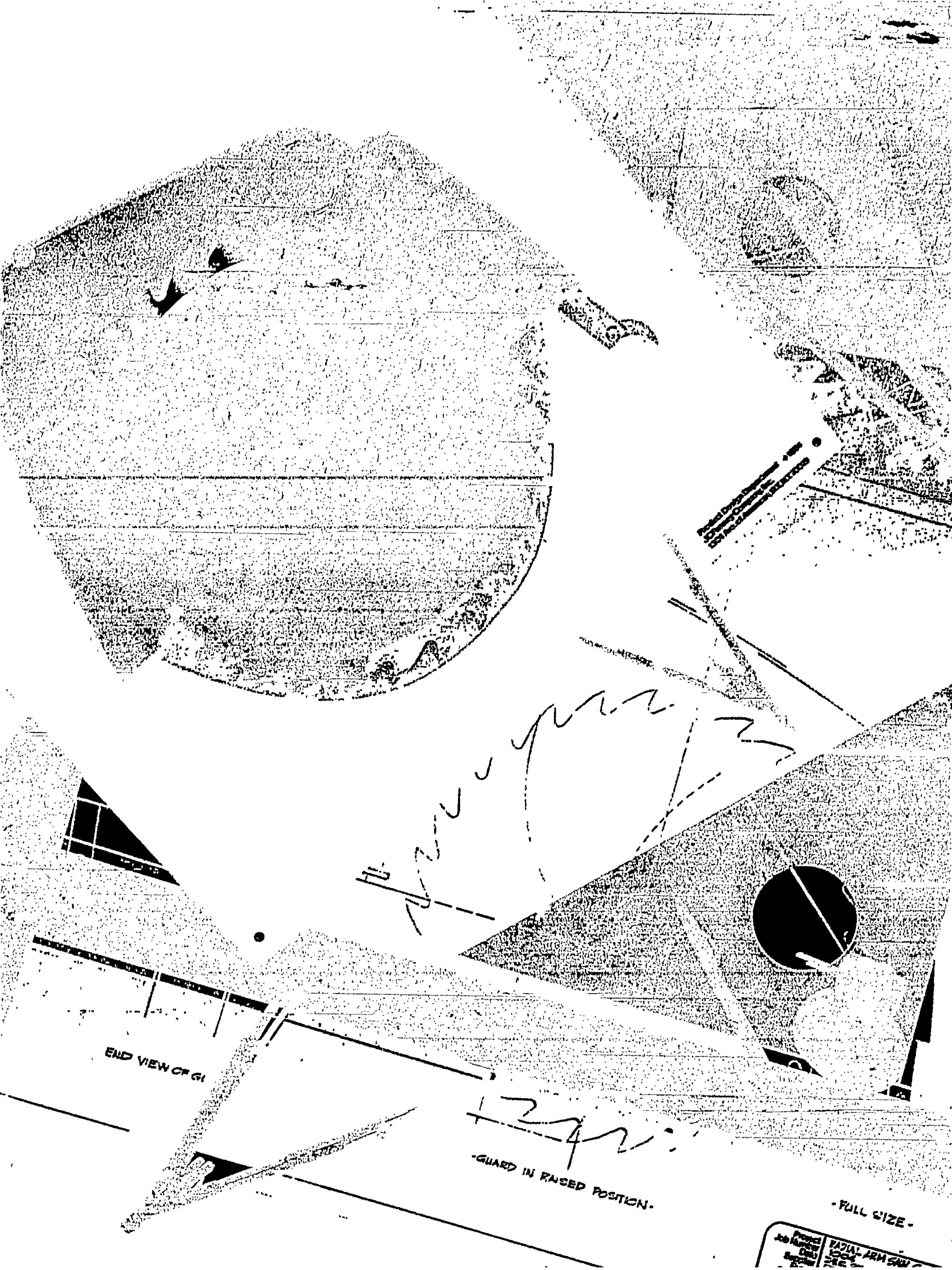
	1973		1972	
	Shares	Option price range	Shares	Option price range
Balance at beginning of year	116,225	$22.59-53.25	251,757	$22.59-53.25
Exercised	(62,807)	22.59-53.25	(134,371)	22.59-53.25
Expired	(834)	23.70-27.03	(1,161)	24.02-53.25
Balance at end of year	52,584	$24.02-53.25	116,225	$22.59-53.25

Options for 45,589 shares were exercisable at the end of 1973, and no additional options may be granted.

The Board of Directors has adopted a new stock option plan, subject to approval by the stockholders at the annual meeting to be held on May 21, 1974. Under the plan, 1.1 million shares of common stock will be reserved for issuance upon the exercise of options granted.

The Company's Form 10-K annual report for 1973 to the Securities and Exchange Commission will be made available upon request.

Product safety is a major concern of our design group. Working with manufacturers and our own merchandise testing center, our designers help assure the proper placement of controls, the legibility and clarity of instructions, and the effectiveness of safety devices such as a blade guard for a radial arm saw.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-GUARD IN RAISED POSITION-
-FULL SIZE-

Statement of Income
Statement of Reinvested Earnings

Statement of Income	52 weeks ended January 26, 1974	52 weeks ended January 27, 1973
Sales	$6,243,677,392	$5,529,621,697
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	4,459,473,376	3,947,282,521
Selling, general, and administrative expenses	1,348,497,753	1,211,380,650
Interest, after deduction of income of J C. Penney Financial Corporation before income taxes	89,672,721	59,763,739
Total costs and expenses	5,897,643,850	5,218,426,910
Income before income taxes and other unconsolidated subsidiaries	346,033,542	311,194,787
Income taxes	170,275,000	155,320,000
Net income before other unconsolidated subsidiaries	175,758,542	155,874,787
Net income of other unconsolidated subsidiaries	10,010,904	10,238,426
Net income	$ 185,769,446	$ 166,113,213
Per share of common stock		
Primary	$3 19	$2 88
Fully diluted	3 18	2.87

Statement of Reinvested Earnings		
Reinvested earnings at beginning of year		
J. C. Penney Company, Inc , as previously reported	$ 864,277,077	$ 761,100,305
The Educator & Executive Company	7,518,695	4,188,276
Restated	871,795,772	765,288,581
Net income for the year	185,769,446	166,113,213
Dividends	(64,548,952)	(59,606,022)
Reinvested earnings at end of year	$ 993,016,266	$ 871,795,772

See 1973 Review of Operations and Financial Information on pages 17 to 24 and Summary of Accounting Policies on page 29

J. C. Penney Company, Inc
and Consolidated Subsidiaries

Assets	January 26, 1974	January 27, 1973
Current assets		
Cash	$ 28,786,680	$ 45,016,423
Receivables, net	215,561,154	146,956,183
Merchandise inventories	1,137,973,715	1,047,064,287
Properties to be sold under sale and leaseback agreements	22,148,791	39,318,060
Prepaid expenses	47,090,759	38,925,098
Total current assets	1,451,561,099	1,317,280,051
Investment in unconsolidated subsidiaries	279,230,498	236,770,030
Properties, net	695,256,078	603,983,174
Other assets	13,484,331	11,118,073
	$2,439,532,006	$2,169,151,328

Liabilities and Stockholders' Equity	January 26, 1974	January 27, 1973
Current liabilities		
Accounts payable and accrued liabilities	$ 602,746,104	$ 547,144,900
Dividend payable	16,335,350	15,343,706
Income taxes	29,374,670	22,107,225
Deferred credits, principally tax effects applicable to installment sales	205,200,000	175,000,000
Total current liabilities	853,656,124	759,595,831
Long term debt	219,970,249	216,856,393
Deferred credits, principally tax effects applicable to depreciation	52,000,000	39,200,000
Stockholders' equity		
Preferred stock without par value: Authorized, 5,000,000 shares—issued, none		
Common stock, par value 50¢: Authorized, 75,000,000 shares—issued, 58,527,405 shares	320,889,367	281,703,332
Reinvested earnings	993,016,266	871,795,772
Total stockholders' equity	1,313,905,633	1,153,499,104
	$2,439,532,006	$2,169,151,328

See 1973 Review of Operations and Financial Information on pages 17 to 24 and Summary of Accounting Policies on page 29.

Statement of Changes in Financial Position

J. C Penney Company, Inc
and Consolidated Subsidiaries

(In millions)	52 weeks ended January 26, 1974	52 weeks ended January 27, 1973
Funds were generated from:		
Operations		
Net income	$185 8	$166.1
Undistributed net income of unconsolidated subsidiaries	(31.1)	(21.6)
Depreciation and amortization	61.0	52.5
Deferred credits, principally tax effects applicable to depreciation	12 8	9.5
Stock issued to savings and profit-sharing plan	14.1	16.2
Stock issued under stock bonus plan	3.8	9.5
Total	246 4	232.2
External sources		
Properties sold and leased back	72 4	125.6
Changes in properties to be sold under sale and leaseback agreements and other disposals	(15.0)	17.6
Increase in long term debt, excluding convertible debentures retired	4 3	21.9
Stock issued to savings and profit-sharing plan—employee purchases	17 9	—
Stock options exercised	2.2	4.4
Stock issued principally upon conversion of debentures	1 2	15 2
Total	83 0	184 7
Total funds generated	329 4	416.9
Funds were used for:		
Dividends	64.5	59 6
Capital expenditures	209.6	185 5
Retirement of convertible debentures	1 3	15.1
Investment in unconsolidated subsidiaries	11.4	18.1
Change in other assets	2 4	(2.6)
Total funds used	289.2	275.7
Increase in working capital	40.2	141.2
Increase in other deferred credits, principally tax effects applicable to installment sales	30.2	36.8
Increase in working funds	$ 70 4	$178 0

See 1973 Review of Operations and Financial Information on pages 17 to 24 and Summary of Accounting Policies on page 29

Accountants' Report

To the Stockholders and Board of Directors of J. C. Penney Company, Inc.

We have examined the balance sheet of J. C. Penney Company, Inc and consolidated subsidiaries as of January 26, 1974 and January 27, 1973, and the related statements of income, reinvested earnings and changes in financial position for the 52 week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 26, 1974 and January 27, 1973, and the results of their operations and changes in their financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the accompanying statistical data on pages 30, 31, and 33 present fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

345 Park Avenue
New York, N.Y
March 18, 1974

Summary of Accounting Policies

The accounting policies employed by the Company are consistent with generally accepted accounting principles In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted the accounting principle that it believes most accurately and fairly reflects the situation, as described in the following paragraphs.

Definition of Fiscal Year. The Company's fiscal year ends on the last Saturday in January Fiscal year 1973 ended January 26, 1974, fiscal year 1972 ended January 27, 1973 Each year comprised 52 weeks

The accounts of several subsidiaries, including the insurance companies, are on the calendar year basis

Basis of Consolidation. The financial statements present on a consolidated basis the results of all domestic and European merchandising operations. Not consolidated are J. C Penney Financial Corporation, the insurance companies, JCP Realty, Inc., and several small nonretail subsidiaries

The income before income taxes of J C Penney Financial Corporation is included in the statement of income as a reduction of interest expense The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income.

Sales. Sales include merchandise and services, net of returns, and exclude value added and sales taxes Layaway sales are recorded upon receipt of the initial deposit

Sales are attributed to the operating division that makes the sale to the customer.

Accounts Receivable. Service charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income

The allowance for doubtful accounts represents 2 per cent of customer accounts receivable at year end

Inventories. Merchandise inventories in stores are stated at the lower of cost or market, determined by the retail method. Other inventories in warehouses or with manufacturers are stated at the lower of cost (first-in, first-out) or replacement market

Properties. The cost of properties includes interest and certain other carrying costs on construction in progress and land held for future use Maintenance and repairs are charged to current operations as incurred, and improvements are capitalized

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets The principal annual rates used in computing depreciation are 3 per cent for store buildings, 2½ per cent to 4 per cent for warehouse buildings, and 10 per cent for fixtures and equipment Improvements to leased premises are amortized on a straight line basis over the life of the lease or the useful life of the improvement, whichever is shorter.

Income Taxes. The Company uses the "flow through" method whereby income taxes are reduced currently for the amounts of investment credits

Foreign Exchange Transactions. All foreign currency accounts are translated into U S dollars at exchange rates in effect at each year end for current assets and liabilities, at historical exchange rates for depreciation and noncurrent assets and liabilities, and at average exchange rates during the year for income and expense Gains and losses are credited or charged to operations as incurred

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except for those of stores opened in January, which are written off in the following fiscal year. Catalog printing costs are written off over the estimated productive lives of the catalogs, not exceeding six months Research and other development costs are charged to operations as incurred.

Pension Cost. The cost of pension benefits has been determined by the entry age normal method. Past service liabilities are amortized over 30 years

Ten Year Financial Summary

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Results for year (In millions)										
Sales	$6,243.7	5,529.6	4,812.2	4,354.7	3,912.7	3,379.2	2,927.0	2,702.8	2,407.9	2,155.1
Per cent increase from prior year	12.9	14.9	10.5	11.3	15.8	15.5	8.3	12.2	11.7	14.1
Credit sales as per cent of sales	39.4	38.7	36.8	36.9	37.4	35.5	35.4	33.2	31.4	29.2
Income before income taxes and other unconsolidated subsidiaries	$ 346.0	311.2	265.6	219.9	231.3	237.3	177.5	156.5	152.1	133.2
Per cent of sales	5.5	5.6	5.5	5.1	5.9	7.0	6.1	5.8	6.3	6.2
Net income	$ 185.8	166.1	137.8	115.1	114.7	111.8	94.7	82.6	80.9	69.3
Per cent increase from prior year	11.8	20.5	19.7	.3	2.6	18.1	14.6	2.1	16.8	23.8
Per cent of sales	3.0	3.0	2.9	2.6	2.9	3.3	3.2	3.1	3.4	3.2
Per cent of stockholders' equity	16.1	16.6	18.1	16.8	18.7	20.6	19.2	18.2	19.5	18.0
Dividends	$ 64.5	59.6	55.4	52.9	52.6	46.5	45.8	43.8	43.5	37.8
Increase in reinvested earnings	$ 121.2	106.5	82.4	62.2	62.1	65.4	48.9	38.8	37.4	31.5
Depreciation	$ 61.0	52.5	45.5	38.4	34.9	28.8	27.0	24.0	20.1	17.3
Capital expenditures	$ 209.6	185.5	237.2	213.4	175.8	127.7	111.0	71.4	46.4	40.5
Per share results										
Net income—primary	$ 3.19	2.88	2.46	2.13	2.14	2.10	1.78	1.55	1.55	1.34
—fully diluted	$ 3.18	2.87	2.43	2.07	2.08	2.06	1.78	1.55	1.55	1.34
Dividends	$ 1.11	1.05	1.01	1.00	1.00	.90	.90	.86	.86	.75
Stockholders' equity	$ 22.45	19.90	17.50	14.06	12.75	11.47	10.19	9.26	8.53	7.82
Common stock price range										
High	$ 101	98½	77½	61⅝	57⅛	51	35⅜	32⅞	39¾	35⅜
Low	$ 58½	67⅛	60½	37⅜	44	27¾	28⅝	24⅜	30½	22
Price-earnings ratio										
High	35	37	33	30	27	25	22	20	29	29
Low	19	29	28	18	21	17	17	16	20	22
Financial position at year end (In millions)										
Assets	$2,439.5	2,169.2	1,936.0	1,718.7	1,478.8	1,210.6	956.9	849.6	747.2	669.6
Working funds	$ 803.1	732.7	554.7	492.0	407.7	422.1	277.0	297.3	295.7	273.0
Customer receivables										
J. C. Penney Financial Corporation, net of 5 per cent withheld	$1,190.2	1,043.3	824.9	758.2	674.8	532.5	483.2	439.9	298.7	188.0
J. C. Penney Company, Inc., net	$ 117.7	67.7	46.5	29.4	25.7	56.7	13.8	12.7	63.0	101.1
Merchandise inventories	$1,138.0	1,047.1	879.4	789.5	717.3	616.5	487.0	491.0	396.8	319.7
Long term debt	$ 220.0	216.9	210.1	326.7	171.6	125.0	—	—	—	—
Stockholders' equity	$1,313.9	1,153.5	1,001.8	759.8	686.2	614.2	543.7	492.6	453.7	416.0
Stockholders and employees										
Number of stockholders at year end	75,000	74,000	71,000	69,000	67,000	62,000	58,000	58,000	58,000	56,000
Average number of shares outstanding (millions)	58.1	57.6	55.7	53.8	53.6	53.3	53.2	53.2	53.2	53.2
Number of employees at year end	200,000	175,000	162,000	152,000	137,000	119,000	104,000	102,000	88,000	78,000

Ten Year Operations Summary

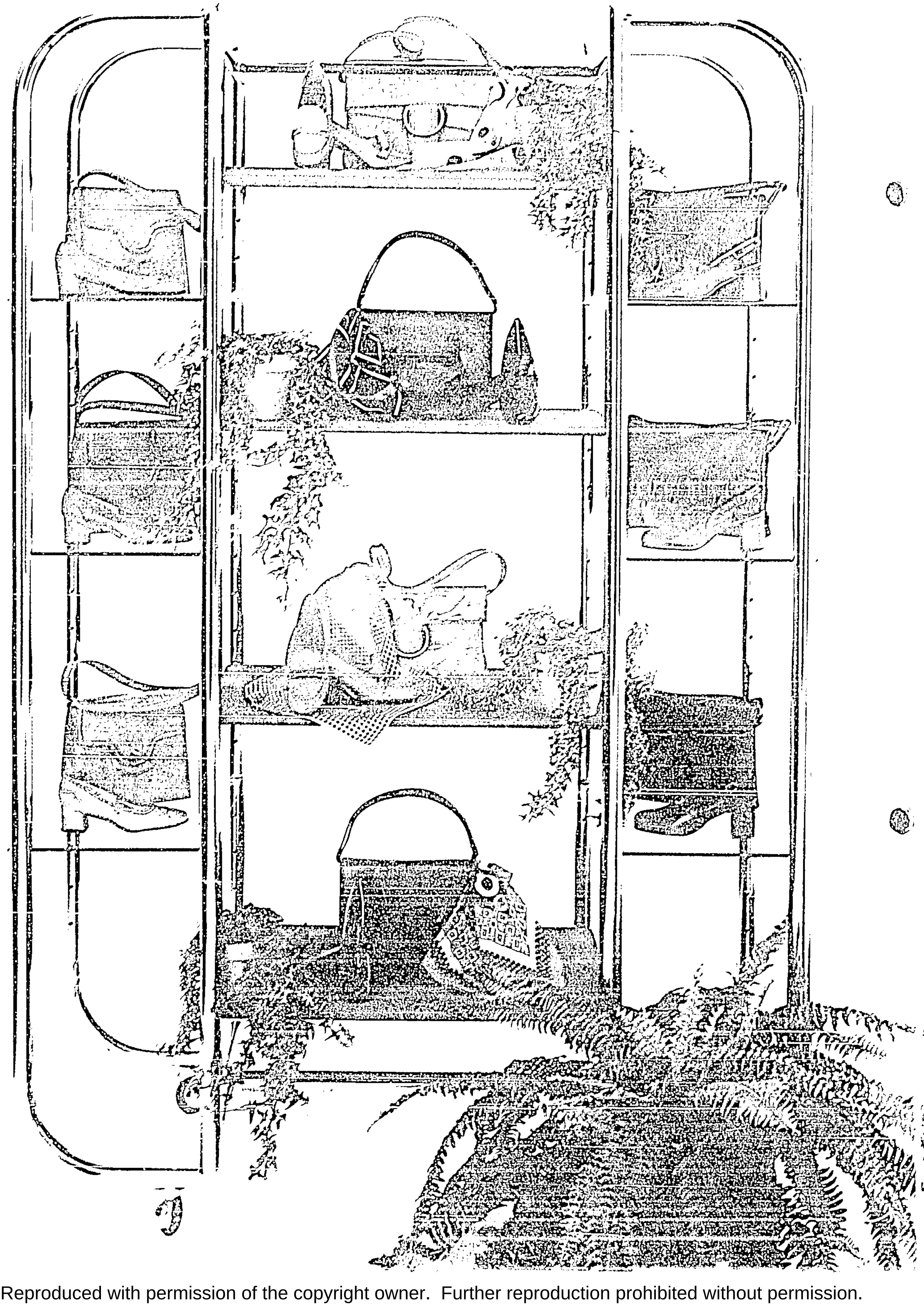
	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Penney stores—full line										
Number of stores	334	308	270	240	208	176	141	108	82	52
Net selling space (million sq ft)	29.2	26.6	22.8	19.4	16.5	13.7	10.4	7.4	5.4	3.5
Sales (millions)	$3,111.2	2,566.8	1,993.9	1,628.1	1,327.0	1,002.0	661.2	477.7	296.5	174.0
Sales per square foot	$ 112.95	103.90	95.59	92.97	90.76	85.53	79.13	78.86	68.64	61.75
Penney stores—soft line										
Number of stores	1,302	1,335	1,370	1,407	1,438	1,476	1,517	1,548	1,582	1,619
Net selling space (million sq ft.)	15.9	16.9	17.5	18.1	18.4	19.0	19.4	19.5	19.6	19.6
Sales (millions)	$2,067.2	2,084.9	2,079.0	2,119.3	2,156.1	2,105.7	2,050.7	2,042.4	1,964.6	1,875.9
Sales per square foot	$ 124.98	121.32	118.15	115.75	115.22	110.10	105.51	105.03	101.21	95.33
Catalog										
Number of sales centers	1,243	1,131	1,079	1,019	944	660	637	565	458	405
Number of distribution centers	2	2	2	2	2	1	1	1	1	1
Distribution space (million sq. ft.)	4.1	4.1	4.1	4.1	4.1	2.0	2.0	2.0	1.3	1.3
Sales—mail order (millions)	$ 101.1	89.0	76.9	70.9	61.9	57.7	52.5	40.8	32.7	31.7
The Treasury stores										
Number of stores	25	23	19	13	10	10	6	5	5	5
Net selling space (million sq ft.)	3.0	2.8	2.3	1.5	1.2	1.2	.7	.5	.5	.5
Sales (millions)	$ 349.9	284.5	242.3	146.2	127.5	85.3	54.1	48.9	42.7	17.5
Sales per square foot	$ 118.92	117.02	122.02	113.15	107.96	96.83	97.53	92.27	80.54	43.18
Drug stores										
Number of stores	239	216	205	189	171	157	148	138	131	123
Net selling space (million sq ft.)	1.5	1.3	1.2	1.0	.9	.8	.7	.7	.6	.6
Sales (millions)	$ 154.9	132.5	112.2	98.0	83.5	71.9	62.8	55.2	46.0	40.0
Sales per square foot	$ 116.64	110.17	111.02	111.84	102.90	94.55	87.61	86.39	79.70	69.09
Supermarkets										
Number of supermarkets	24	23	22	23	20	17	16	13	11	6
Net selling space (million sq ft.)	.4	.3	.3	.3	.3	.2	.2	.2	.1	.1
Sales (millions)	$ 110.9	100.2	96.6	88.4	72.4	56.6	45.7	37.8	25.4	16.0
Sales per square foot	$ 325.40	336.85	320.05	294.98	298.68	259.70	255.27	261.24	176.57	250.52
European operations										
Number of stores	89	92	89	92	95					
Net selling space (million sq. ft.)	1.8	1.7	1.3	1.2	1.2					
Sales (millions)	$ 348.5	271.7	211.3	203.8	84.2*					
Sales per square foot	$ 129.22	124.31	118.39	119.11	49.26*					

Catalog merchandise sold through stores is included in the sales of those stores. Drug and supermarket sales through Penney and Treasury stores are included in the sales of the latter divisions. Food sales by European operations are included in that division's sales. The statistics shown above for drug stores and supermarkets are exclusive of their operations in Penney and Treasury stores.

Reclassification of several stores in 1973 resulted in a net increase of two full line stores and a net decline of two soft line stores.

Sales per square foot include only those stores in operation for the full year.

*Reflects sales of Sarma, S.A. from July 31, 1969, date of purchase.



Store Space Opened in Fiscal 1973

Date opened	City, state, shopping center	Gross square feet of store space (in thousands)
Penney stores		
Feb. 15	Springfield, Virginia (Springfield Mall)	222
Mar. 7	Orem, Utah (University Mall)	173
Mar. 14	*North Little Rock, Arkansas (McCain Shopping Center)	149
Mar. 21	*Ames, Iowa (North Grand Shopping Center)	105
Mar. 28	*Roanoke, Virginia (Tanglewood Mall)	140
Mar. 28	*San Bernardino, California (Central City Mall)	241
Apr. 25	*Whittier, California (Whittwood Shopping Center)	223
July 11	*Davenport, Iowa (Northpark Shopping Center)	223
July 25	*Duluth, Minnesota (Miller Hill Mall)	181
Aug. 1	*Fond du Lac, Wisconsin (Forest Mall)	76
Aug. 1	*Alexandria, Louisiana (Alexandria Mall)	143
Aug. 1	*Carroll, Iowa	22
Aug. 9	*Matteson, Illinois (Lincoln Mall)	181
Sept. 12	*Laredo, Texas (River Drive Mall)	129
Oct. 3	*St. Helens, Oregon	10
Oct. 17	*Langhorne, Pennsylvania (Oxford Valley Mall)	226
Oct. 24	Massapequa, New York (Sunrise Mall)	204
Oct. 31	Ann Arbor, Michigan (Briarwood Shopping Center)	176
Oct. 31	Atlanta, Georgia (Cumberland Mall)	181
Oct. 31	Hampton, Virginia (Coliseum Mall)	218
Nov. 1	*East Brunswick, New Jersey (Brunswick Square)	224
Nov. 7	*Spokane, Washington	177
Jan. 2	*Peoria, Illinois (Northwoods Shopping Center)	175
Jan. 2	Middletown, New York (Orange Plaza Shopping Center)	140
Jan. 9	*Brownsville, Texas (Amigoland Mall)	136
Jan. 23	*Augusta, Maine	18
Jan. 23	*Bradenton, Florida (De Soto Square)	103
The Treasury stores		
Mar. 7	Miami, Florida	178
Mar. 7	Lauderdale Lakes, Florida	178
European operations		
Feb. 21	Verviers, Belgium	37
Sept. 26	Kuurne, Belgium	126
Nov. 14	Genval, Belgium	23
Drug stores (24 stores opened)		274
Supermarkets (2 stores opened)		50
Expansions and other additions		162
Gross store space opened		5,224
Less store space closed (42 units)		1,376
Increased gross square feet		3,848
Increased square feet of net selling space		2,153

*Relocation of existing store.

Well designed store fixtures enable shoppers to determine easily the assortment, styles, and colors of merchandise available. They enhance the presentation of merchandise without competing with it. This versatile, mobile displayer provides a contemporary note wherever it's used in the store.

Directors

Louis L. Avner
President,
Thrift Drug Company

Kenneth S. Axelson
Vice President

William K. Barry
Vice President

William M. Batten
Chairman of the Board

William M. Ellinghaus*
President,
New York Telephone Company

Jack B. Jackson
President

Ray H. Jordan*
Retired,
formerly President,
J. C. Penney Company, Inc.

Vernon E. Jordan, Jr.
Executive Director,
National Urban League

Juanita M. Kreps*
Vice President,
Duke University

Walter J. Neppl
Executive Vice President

Donald V. Seibert
Vice President

Charles T. Stewart
Vice President

George S. Stewart
Vice President

Cecil L. Wright*
Retired,
formerly President,
J. C. Penney Company, Inc.

Walter B. Wriston*
Chairman,
First National City Bank and
First National City Corporation

Officers

William M. Batten
Chairman of the Board

Jack B. Jackson
President

Walter J. Neppl
Executive Vice President

Robert L. Adair
Vice President and Controller

Kenneth S. Axelson
Vice President and Director of Finance and Administration

William K. Barry
Vice President and Director of Merchandise

Andrew Cumming
Vice President and Director of Personnel

Robert B. Gill
Vice President and General Merchandise Manager of Home and Automotive Lines

Wallis G. Hocker
Vice President and General Credit Manager

Galen R. Hogenson
Vice President and General Merchandise Manager of Apparel Lines

Baldwin L. Humm
Vice President and Director of Catalog Sales and Operations

Oscar J. Hunter
Vice President and Eastern Regional Manager

Arthur Jacobsen
Vice President and Director of Consumer Financial Services

Lee S. Moore
Vice President,
J. C. Penney Company, Inc. and
Managing Director,
Sarma-Penney Ltd.

William A. Perry
Vice President and Central Regional Manager

Stanley J. Putman
Vice President and Southeastern Regional Manager

Foster E. Sears
Vice President and Director of Real Estate

Donald V. Seibert
Vice President and Director of Corporate Planning and Development

Charles T. Stewart
Vice President, General Counsel and Director of Public Affairs

George S. Stewart
Vice President and Director of Corporate Facilities and Services

George M. Stone
Vice President and Director of Government Relations

Marvin L. Tanner
Vice President and Southwestern Regional Manager

Robert R. Van Kleek
Vice President and Western Regional Manager

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Treasurer

Albert W. Driver, Jr.
Secretary

John B. Hebard
Assistant Treasurer

Paull F. Hubbard
Assistant Treasurer

Archibald E. King, Jr.
Assistant Secretary

J. David Silvers
Assistant Secretary

Elting H. Smith
Assistant Secretary

E. Harlin Smith
Assistant Treasurer

John F. Wood
Assistant Controller

Transfer Agents

Chemical Bank
770 Broadway
New York, New York 10003

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60690

Registrars

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Continental Illinois National Bank
and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Exchange Listings

New York Stock Exchange

Brussels and Antwerp
Stock Exchanges

*Member of the Audit Committee of the Board of Directors